FINANCIAL TIMES

New frontier

Burma looks for foreign friends

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Mark McCormack

Still winning the shootout

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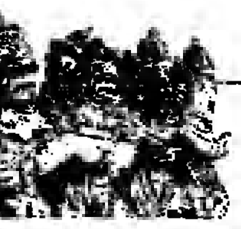

Today's surveys

Indonesia
Relocation

Separate sections

TOMORROW'S
Weekend FT

Welcome to the new university

World Business Newspaper — FRIDAY JUNE 9 1995

China and Britain reach Hong Kong appeal court deal

Britain and China are expected today to announce landmark deal on a court of final appeal to replace the Privy Council as Hong Kong's highest appellate court after the territory reverts to Chinese sovereignty in 1997. Hong Kong governor Chris Patten will put the terms of the agreement to his executive council today, and no objection is expected. It is understood Beijing and London have agreed the court should come into force on July 1 1997, but that legislation to set it up will be presented to Hong Kong's legislature this month. The Privy Council will remain in use until the end of British rule. The deal comes after a difficult period for Anglo-Chinese links, but officials were cautious last night about predicting a thaw in relations. Page 14

Deutsche Telekom, the state-owned German carrier, cut its losses from DM1.6bn to DM300m ($206m) in 1994, boosting prospects for its part-privatisation next year. Page 15

Merrill Lynch German offices searched: German authorities searched the six German offices of Merrill Lynch in an investigation linked to alleged attempts by the US bank to help Germans avoid taxes. Merrill Lynch board member Wolfgang Eickmann denied the allegations and said the bank would co-operate with the probe.

Hopes rise for peace talks breakthrough:

US secretary of state Warren Christopher arrived in Israel yesterday to launch what is widely considered his best chance yet of brokering a breakthrough in Israel-Syria peace talks. Israeli officials said what made things different this time was the conviction that Syria was ready to move ahead and try to strike a deal within the next six months, despite the obstacles remaining to be negotiated. Page 14

Britain turns to 'typical' taxman: Britain's Inland Revenue department will use the stereotyped image of a bowler-hatted, pinstripe-suited, white middle aged male in its advertising campaign to introduce self-assessment.

Japan moves to help banks: Tokyo unveiled measures to help Japan's beleaguered banking system, but the package fell short of a wholesale rescue plan and financial markets were disappointed. Page 14; Background, Page 4

Labatt in talks: Canadian beer and entertainment group John Labatt is talking to at least two possible bidders for its broadcasting interests. Labatt is subject to an agreed bid from Belgian brewer Interbrew. Page 15

Zeneca shares rocket: Zeneca shares surged 12 per cent in London in just a few hours, forcing the UK bioscience group to disclose acquisition plans. The announcement failed to dispel speculation that Swiss drugs company Roche may be mulling a bid for Zeneca. Page 15; Lex, Page 14; London stocks, Page 28

Airline forced to reschedule: Mexican airline Aerovias de Mexico, which is close to bankruptcy, is the first Mexican company forced to try to reschedule a eurobond since the peso devaluation crisis last December.

French claim advance on diesel: French pharmaceuticals company Rhône-Poulenc said it had managed to cut carbon emissions from diesel fuel by up to 90 per cent by introducing cerium to the fuel, combined with a filter. Tiny particles in diesel fumes have been suspected of causing cancer.

More charges against Leeson: A German court approved 11 more charges against Nick Leeson in a request from Singapore for the extradition of the former Barings Bank trader. Singapore wants to try the Briton on fraud and cheating charges linked to his stock futures trading, blamed for the collapse of the London bank. Page 9

New Zealand splits power generator: New Zealand's government is to split its state electricity generator to try to create a competitive electricity market.

Hutus killed in Burundi: At least 25 civilians were found murdered in the last Hutu bastion of Burundi's capital, Bujumbura, after an army sweep to clear out militiamen.

Scores die in Indian heatwave: About 80 people have died during a fierce heatwave in northern and western India, including more than 25 in the state of Uttar Pradesh, where temperatures reached 49.5 C.

■ STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	4,465.49	(+3.46)
NASDAQ Composite	884.96	(+3.4)
Europe and Far East		
CAC40	1,951.19	(-23.5)
DAX	2,130.97	(-10.10)
FT-SE 100	3,380.8	(+10.0)
Nikkei	15,442.3	(-237.32)

■ US LUNCHTIME RATES

Federal Funds	$6\frac{1}{16}$%
3-mth Treas Bills: Yld	5.765%
Long Bond	$113\frac{12}{32}$
Yield	6.557%

■ OTHER RATES

UK: 3-mo Interbank	$6\frac{13}{16}$%	($6\frac{5}{8}$%)
UK: 10 yr Gilt	$104\frac{11}{32}$	($105\frac{5}{32}$)
France: 10 yr OAT	100.97	(101.21)
Germany: 10 yr Bund	102.12	(102.4)
Japan: 10 yr JGB	112.704	(113.162)

■ NORTH SEA OIL (Argus)

Brent 15-day (Jul)	$$17.80\frac{1}{2}$	(17.96)

■ GOLD

New York: Comex		
(Aug)	$389.5	(same)
London:		
close	$386.6	(385.9)

■ DOLLAR

New York: lunchtime		
£	1.5955	
DM	1.4115	
FFr	4.9645	
SFr	1.1645	
Y	84.765	
London:		
£	1.5883	(1.592)
DM	1.4198	(1.4074)
FFr	4.9825	(4.95)
SFr	1.1713	(1.1579)
Y	85.03	84.34)

■ STERLING

DM	2.255	(2.2406)
Tokyo close:	Y 85.02	

Austria	Sch35	Greece	Dr400	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr70	Hungary	Ft185	Neth	Fl 4.25	Singapore	S$4.30
Bulgaria	Lv110.00	Iceland	IKr220	Nigeria	Naira90	Slovak Rp	KSL60
Cyprus	C£1.10	India	Rs75	Norway	NKr18.00	S. Africa	R12.00
Czech Rp	CZK55	Israel	Shk7.90	Oman	OR1.50	Spain	Pta225
Denmark	DKr17	Italy	L3000	Pakistan	Rs40	Sweden	SKr17
Egypt	E£5.00	Japan	Y500	Philippines	Pso50	Switz	SFr3.60
Estonia	EKr20	Jordan	JD1.50	Poland	Zl 42,000	Syria	S£50.00
Finland	FM15	Kuwait	Fils.625	Portugal (m'land)	Es230	Tunisia	Din1.500
France	FFr10.50	Lebanon	US$1.50			Turkey	L55,000
Germany	DM3.60	Lux	LFr70			UAE	Dh12.00

Nato stresses need for co-operation as US celebrates pilot's rescue

UN 'must re-establish authority' in Bosnia

By Bernard Gray in Brussels

The UN will have to consider withdrawing from Bosnia unless it can re-establish its authority through diplomacy and new rapid response forces, European defence officials yesterday warned.

They were speaking at a meeting of Nato defence ministers where the US announced details of the successful rescue by US Marines of a fighter pilot whose aircraft was shot down a week ago over Bosnian Serb territory.

In Washington, Mr Bill Clinton, the US president, said the rescue proved that "our country has the finest armed forces in the world and we are very, very proud of them". The downing of the aircraft provoked US demands for tough action against the Bosnian Serbs.

Mr Malcolm Rifkind, the British defence secretary, stressed in Brussels that the UN could only complete its mission with the general consent of the warring parties in Bosnia, and that such co-operation had broken down. If it could not be re-established, he said, the UN would have little option but to withdraw.

Mr Willy Claes, Nato's secretary-general, said the Nato alliance was in the second stage of a three-phase plan to position itself to oversee a possible withdrawal of UN forces from Bosnia.

Nato commanders are expected in the coming days to receive from member countries a list of troops they are willing to contribute to the evacuation.

Defence officials said that a decision would have to be taken by early August about whether conditions would permit Unprofor to remain in Bosnia for another winter or if a withdrawal should begin.

However, Mr William Perry, US defence secretary, said that he hoped the new rapid reaction force, to which Britain, France and the Netherlands are contributing, would strengthen the UN command in Bosnia. He said this would help create the conditions where the warring parties would once again accept the mandate of the UN forces.

Meanwhile, the French military yesterday airlifted a 60-man platoon with six heavy mortars to its forces on Mount Igman, the strategic peak which overlooks Sarajevo. The airlift prompted speculation that an important road over the mountain, a target for Bosnian Serb attacks, could be secured by force.

A French general said force might be used to knock out heavy weapons in the Sarajevo region if negotiations failed to secure their removal. "One first has to try negotiation, but if these weapons are not taken out, they will be liable to be destroyed," he said in Paris.

One sign that Nato thinks withdrawal will not be immediate came with the scaling down of an exercise which would have practised many of the techniques used in withdrawal. General George Joulwan, Nato's supreme commander, decided that to save money the full "Mountain Guard" exercise did not need to be conducted in Italy now that the situation was less urgent.

It was also acknowledged that Britain and France would go back to the UN Security Council to seek an increase in the number of troops which the UN could deploy in Bosnia to accommodate almost 10,000 new troops earmarked for the rapid reaction forces.

Neither country is expecting opposition to the move, particularly after talks with Mr Andrei Kozyrev, the Russian foreign minister this week. Mr Kozyrev said following his meeting with Mr Douglas Hurd, the UK foreign secretary, that he was reassured about the role of the new force.

A Bosnian Moslem is comforted at the funeral of his father, killed in fighting at Sarajevo two days ago AP

Single currency a 'political necessity' for Europe

By Andrew Fisher in Frankfurt

Failure to proceed with monetary union would endanger the Europe's single market, Mr Yves-Thibault de Silguy, European commissioner for monetary affairs, warned yesterday.

"A single currency is a political necessity for Europe," Mr de Silguy told a bankers' conference in Frankfurt. "If you want to keep the single market, then you have to have a single currency. Otherwise, the single market is in serious danger." His view echoed a strong warning delivered earlier in the conference by Mr Ulrich Cartellieri, a director of Deutsche Bank, that failure to proceed with Emu would have severe consequences for European currency stability, economic growth and free trade.

"The disappearance of the prospect of a joint currency would cause the EMS [European monetary system] to break apart quickly and finally," he said. "Nor would the core of the EMS – the firm franc/DM link – also hold together any longer."

The reason would not be Germany's superior economic stability – France has had a lower inflation rate than Germany for five years – but a "fatal loss of credibility" by politicians, he said.

Though other big German banks and companies generally support Emu, there is much scepticism in Germany about giving up the D-Mark for a single currency. Mr Cartellieri supported the idea of calling a new joint currency the Euro-Franken rather than the Ecu, as laid down in the Maastricht treaty.

"Ecu is not a name which arouses confidence in German ears. A good product needs a good name," he said. The objections stem from the fact that the European currency unit (Ecu), a basket of currencies, has steadily depreciated against the D-Mark.

Mr Cartellieri said recent foreign exchange turbulence had shown that currency fluctua-

Continued on Page 14
Selling Ecus in the D-Mark's heartland, Page 3; Threat to City of London, Page 8; Editorial Comment, Page 13

GEC's $1.3bn bid lifts stakes in VSEL battle

By Bernard Gray

Britain's General Electric Company yesterday took a big step towards winning control of VSEL with a renewed takeover bid which values the UK submarine maker at £835m ($1.31bn).

GEC's cash offer of £21.50 per share was considerably higher than the stock market had expected. It comfortably topped British Aerospace's rival all-share bid which last night valued each VSEL share at £17.39. BAe is offering a cash alternative of £16. VSEL shares closed 302p higher at £21.40.

"This is a semi-knockout bid," one analyst said. "GEC hopes to have raised the bidding to a level which BAe cannot match, but given BAe's tax advantages and the importance of the deal, that cannot be guaranteed."

VSEL's board recommended shareholders take no action until BAe decided how to respond. BAe said it was studying GEC's offer, but it would not rush to respond.

Ownership of VSEL would allow GEC to expand its ambitions to become an overall programme manager in defence and consolidate its position as the dominant UK warship supplier. If BAe wins VSEL, it would extend its programme management dominance from aircraft to warships.

There are risks if either company loses. If BAe missed out it would be left financially weaker. If GEC lost it would find it much harder to break into large-scale defence project management.

VSEL is also the likely winner of the £2.5bn Trafalgar class submarine contract, due to be decided in the next 18 months. The only contract of similar size being offered this century, apart from the Eurofighter project in which both BAe and GEC are involved, is the £2bn attack helicopter deal for which both are also competing. If one bidder won both contracts, it would be in a strong position to dominate the UK defence industry.

Analysts had predicted that GEC would offer between £18 and £20 a share. Its £14 offer last autumn was referred to the Monopolies and Mergers Commission, whose majority recommendation that it not be allowed to

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Lex, Page 14

IBM makes use of Internet to pursue its bid for Lotus

By Louise Kehoe in San Francisco

International Business Machines is pursuing its $3.3bn hostile takeover bid for Lotus Development, the personal computer software company, in cyberspace.

IBM is seeking to influence the outcome of the battle through the Internet, the global network of computers with an estimated 30m users – including, it must be assumed, many Lotus employees.

Although some 80,000 companies now use the Internet to distribute information about products and business developments, IBM's blitz represents an unprecedented use of the new medium for corporate strategic communications.

Within 10 seconds of the official announcement on Monday, IBM had sent out audio clips on its World Wide Web home page of Mr Lou Gerstner, its chairman and chief executive, explaining the company's action.

The page also carried the text of the IBM press release, a memo to its employees and a copy of Mr Gerstner's letter to Mr Jim Manzi, Lotus chairman and chief executive, informing him of the bid.

IBM's team of Internet communications specialists had worked through the early hours of Monday to prepare the materials, said Mr Jon Iwata, manager of the IBM Internet group. "The moment the first headline appeared on a news wire service, we hit the button." Later in the day, a transcript of Mr Gerstner's 45-minute news conference and even photographs from the event were added.

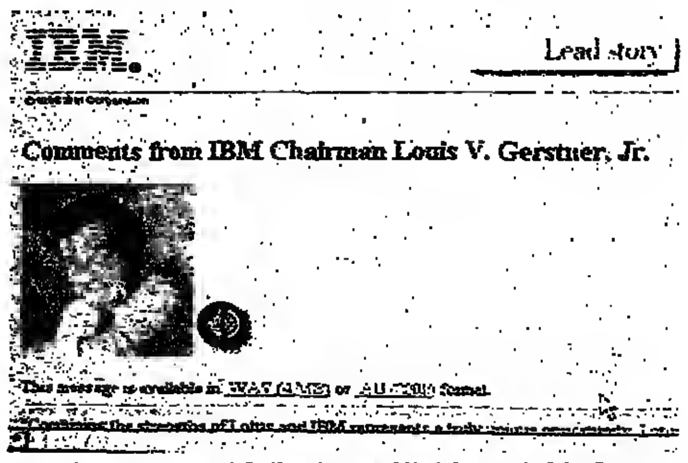
Lotus employees and business partners in the computer industry are the primary targets of the project, IBM acknowledges.

By using the latest multimedia tools to include photographs and sound on its Web pages, IBM aimed to make a good impression among technology cognoscenti. "We realise there are a lot of preconceptions about IBM and not all of them are positive," Mr Iwata said. "It was very important that we appear to be quick, responsive, open and a bit cool."

Within hours of the announcement over 20,000 people recorded 212,000 "hits" or visits to IBM's WWW home page, more than double the normal daily volume of activity.

IBM said it was not trying to sidestep newspapers and other traditional media, but believed the Internet was a faster way of delivering an unfiltered message to millions of people.

IBM's WWW page can be reached at: http://www.ibm.com.



IBM's Internet page extols the virtues of its takeover bid for Lotus

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UK under fire on oil platform disposal

By Leyla Boulton in Esbjerg

Britain yesterday faced a concerted European attack on a plan to bury an oil platform in the Atlantic as environment ministers from nine European countries gathered in Denmark to tackle wide-ranging marine pollution problems.

Ministers arriving at the fourth North Sea conference were greeted, courtesy of Greenpeace, the environmental group, by a large model of the Brent Spar, an oil storage platform about to be decommissioned by Shell, the Anglo-Dutch company.

Shell recently received permission from the UK government to tow it from the North Sea, home to 400 oil platforms to the Atlantic Ocean for deep-sea disposal. But it was temporarily occupied by Greenpeace activists and Denmark's proposal that the conference ban off-shore disposals of oil platforms has been backed by Belgium, Germany, the Netherlands, Sweden and the European Commission.

Ministers from nine countries bordering on the North Sea or with rivers feeding into it are due to examine a long list of sticky problems ranging from the disposal of hazardous chemicals to over-fishing at this two-day conference.

The Europeans' environment commissioner, Ms Ritt Bjerregaard, herself a Dane, yesterday gave a flavour of the passions erupting around Shell's oil platform.

"One cannot blame people if they decide to buy petrol from another company," Ms Bjerregaard was quoted as saying by a local Danish newspaper. "How can you explain to the citizens of Europe why it is necessary to dispose of used bottles in [re-cycling] containers if at the same time we allow oil companies to dump their installations?"

Britain and Norway, the only other country to operate deep-sea oil rigs like the Brent Spar, are in a minority of two in arguing that disposal at sea is the safest and most sensible way of getting rid of some of the world's largest man-made structures.

Greenpeace, however, claims that Brent Spar disposal will pollute seas adjoining the Atlantic with up to 130 tonnes of toxic and radioactive waste.

But the Brent Spar controversy, which has captured headlines and the public imagination in Scandinavian states in particular, appears to be the easiest issue for the ministers to get their teeth into.

Ms Anna Lindh, environment minister for Sweden, one of the "greenest" European states, yesterday, for instance, joined calls for a ban on the deep-sea burial of oil platforms.

But she also turned her ire on the shipping industry for its "carelessness and downright evasiveness" over marine pollution and on the EU for being "far too weak" on rules governing the discharge of heavy metals into the sea.

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Turkey begins campaign for EU support

Ankara's charm offensive aims at winning European parliament backing for customs union

By Lionel Barber in Brussels

Mr Erdal Inönü, the Turkish foreign minister, yesterday unveiled Ankara's game-plan aimed at winning the European parliament's support for the customs union with the European Union.

In an interview with the Financial Times, Mr Inönü said he was confident that a constitutional package, including a strengthening of human rights commitments, would pass the Turkish parliament by the end of June.

The package would then be submitted to the European parliament, which has to give a positive opinion for the customs union to start on schedule on January 1 1996.

In parallel, Turkey intends to pass an enabling bill to push through technical laws on competition and intellectual property to meet EU demands.

Since Greece finally lifted its veto earlier this year, the parliament has emerged as the single biggest obstacle to the customs union. The Ankara government is mounting a charm offensive, inviting MEPs to Turkey to ease worries about its treatment of minority Kurds.

Mr Inönü stressed yesterday that the package was driven chiefly by promises of democratic reform made to the Turkish people. But he went out of his way to praise the European parliament as a "very important institution" and a "democratic forum".

Turkey's reform package will contain 24 amendments to the constitution. These include provisions to broaden access to politics, especially for students; civil servants to join trade unions; and abolish Article 8 of the anti-terrorism law, the catch-all provision which bans all oral and written propaganda judged to threaten Turkey's territorial integrity.

The substance of Article 8, which has been used in recent years to imprison dozens of writers, academics, trade unionists and journalists for writing pieces favourable toward Turkey's Kurdish minority, is expected to be transferred into the criminal code.

Critics describe the changes to Article 8 as cosmetic, and point to several cases where charges had been brought against writers and intellectuals under the penal code.

But Mr Inönü predicted that they would secure the necessary two-thirds majority in the 450-member Turkish parliament and meet EU demands.

In particular, he cited the results of last weekend's municipal elections which gave a boost to Mrs Tansu Çiller's coalition government, allowing her to focus on selling the customs union and the accompanying reforms in the run-up to July 1, when parliament is scheduled to begin a three-month recess.

Mr Inönü, the son of a former Turkish president and prime minister who heads the social democratic Populist party, said the package already had attracted 300 signatures of support.

Last month, three top MEPs, including Mrs Pauline Green, socialist group leader, visited Turkey. They made clear that the customs union would stand or fall by Turkey's commitment to human rights.

Russia, Ukraine try to make up

By Matthew Kaminski in Sochi, Russia

The presidents of Russia and Ukraine will today hold a summit at the Black Sea holiday resort of Sochi to try to normalise the increasingly strained bilateral relationship between the two biggest Slavic countries.

The future of the now jointly shared Black Sea Fleet, whose uncertain status on Ukraine's Crimean peninsula is the source of friction between the two states, will be at the top of the agenda.

Mr Boris Yeltsin, the Russian president, has withheld support for a broader friendship treaty – and repeatedly delayed a summit in Kiev, the Ukrainian capital – until the two countries agree on the exact division and basing privileges for the 300-vessel fleet.

His counterpart, Mr Leonid Kuchma, has steadfastly refused a Russian demand to put Sevastopol, the fleet headquarters in Crimea – an autonomous Ukrainian region governed by pro-Russian separatists – entirely under Moscow control.

Instead, Ukraine has sought to lease some port facilities along the country's Black Sea coast and let its small navy base ships at Sevastopol, shared by the two and governed by Kiev.

The dispute has dragged on since the Soviet Union's collapse. Diplomats said they were sceptical about a final resolution today.

Under pressure from nationalist forces ahead of approaching parliamentary and presidential elections, Mr Yeltsin repeatedly said Russia would not compromise on the fleet. Sevastopol, founded by Catherine the Great, is an emotive issue in Russia.

He is also expected to raise Russian concerns over Mr Kuchma's endorsement last month of Nato's eastward expansion and suggestions that Ukraine, ruled by Moscow for over three centuries until 1991, might also want to join.

By contrast, Mr Kuchma has called for a modus vivendi with Russia, which, according to Mr Boris Tarasyuk, deputy foreign minister, is "Ukraine's strategic partner" and only energy supplier. Economic relations have improved: Ukraine's eastern regions this year signed a custom union and eased border crossings.

"Despite the complicated political and economic situation in Ukraine as in Russia, it will be necessary to find a compromise," said Mr Kuchma on his arrival in Sochi.

But he has acted more assertively to court support from western countries, principally the US, as a counterweight to Russia during the continuing difficult talks. Mr Tarasyuk said Ukraine had more at stake with the Black Sea Fleet because it touched on the country's fledgling territorial integrity.

Ukraine has also undercut the economic and military integration plans floated at the Commonwealth of Independent States.

Mr Kuchma comes to Sochi after scoring a domestic political victory yesterday when parliament formally backed down and gave him stronger executive authority to appoint ministers and use his power to issue decrees.

The presidant yesterday asked Mr Evhen Marchuk, acting prime minister, to carry on in the post and head a hand-picked government committed to the president's economic and foreign policies. Mr Marchuk, who led Ukrainian negotiations with Russia, has complained about Moscow's bullying of Ukraine.

But Russia holds the stronger economic card: Ukraine continues to ring up arrears, above $700m (£445m) so far this year, for gas supplies. Russian officials have threatened to turn the gas off or even revoke a $2.5bn debt rescheduling agreement if Ukraine does not compromise on the fleet.

Moscow sees crisis in Balkans as door to west

By Bruce Clark, Diplomatic Correspondent

Mr Andrei Kozyrev, the Russian foreign minister, used a visit to London this week to drive home Moscow's interest in a general consolidation of Russian-western ties, growing out of co-operation in the Balkans.

At meetings with Mr John Major, the prime minister, and Mr Douglas Hurd, the foreign secretary, the Russian argued – apparently with some success – that Moscow's role in Bosnia was proof of its central place in Europe and beyond.

Mr Kozyrev pressed strongly for the relaunching of an interim trade agreement between his country and the European Union which was frozen by Brussels after the Russian onslaught against the breakaway enclave of Chechnya last December. He also pressed the case for a model of European security that avoids "new dividing lines" and accords a prominent role to Russia. In practice, the avoidance of divisions is likely to mean that there will be no early moves to expand Nato.

On a third front, the minister called for the fullest possible Russian role at next week's summit in Halifax, Canada, of the rich nations' club which was known as the Group of Seven – at least until last year when Russia was admitted to its political, though not its economic, deliberations.

In western Europe, at least, Russia appears to be winning a fairly sympathetic hearing, despite the continuing conflict in Chechnya.

Britain and France, both of which have consulted Russia closely over the Bosnia crisis, are now understood to favour unfreezing the Russia-EU trade agreement. The main

> Russia appears to be winning a fairly sympathetic hearing

opposition comes from Nordic countries, where indignation over the death in Chechnya of thousands of civilians still runs high.

Feelings are understood to be divided in Germany, where there is enormous interest in relations with Russia, but also considerable concern among the public over Moscow's behaviour in Chechnya.

Mr Hurd has found some merit in Russia's argument that its role in Bosnia has implications for European security as a whole. He said the five-nation contact group – comprising the US, Russia, Britain, France and Germany – had come into being because both Russia and the west realised there was no hope of success unless they worked closely together.

"We want to learn the lessons from that and create something different, but with the same concept, in the relationship between Nato and the west," said Mr Hurd, after disclosing that talks with Mr Kozyrev had focused on "a closer mechanism of consultation" between Moscow and the alliance.

This mechanism, he added, did not simply mean keeping one another informed, it would also imply "working successfully together" on security problems, of which Bosnia was only one.

Next week's meeting in Halifax will show how far Russia's effort to proceed from co-operation in the Balkans to a broader relationship with the west has succeeded. It could also reveal some fissures between the US, whose relations with Russia are strained on several fronts, and its European allies. The agenda will include sensitive subjects like the nuclear ambitions of Iran, where the US is sharply at odds with Russia but western Europe much less so.

Right: People take shelter from sniper fire in Sarajevo yesterday after being rescued from their vehicle by French UN peacekeepers Picture: AP

EdF optimistic about energy market compromise

By David Buchan in Paris

Electricité de France yesterday expressed optimism about an early compromise to liberalise the European energy market which would let it keep its monopoly on distributing, but not on trading and producing, power.

Mr Gilles Ménage, president of EdF – a state-owned utility which is the world's largest electricity generator – welcomed last week's conclusion by European Union energy ministers that the French plan for a "single buyer" system could co-exist in Europe with the "third party access" system, which was originally backed by the European Commission and is already in effect in the UK.

Mr Ménage stressed that EdF was ready to change – chiefly in seeing the disappearance of its national monopoly over power generation, exports and imports – in the interest of getting a rapid EU compromise, giving companies such as EdF "legal stability" for their future development.

A key factor in reaching a compromise, he acknowledged, was proving that the French single-buyer system, whereby large French consumers would be free to buy power outside France provided it passed through the EdF network, would provide as much of a market opening to foreign generators as the third party access system, which would not contain the same legal restriction on distribution.

EdF claims this will be possible, adding that competition will be in fact easier to monitor in the simpler French system, with a single government regulator supervising EdF as the single buyer, than in the more fragmented and more complex structure in the UK and Germany.

Mr François Ailleret, EdF's chief executive, cautioned that EU ministers still had a lot of detailed issues to settle, such as what sort and size of consumers would be free to buy power abroad, limits on imports and the fate of investments left stranded by imports.

But the French utility appears to believe its battle is now at least half-won, with EU recognition that plans to introduce more competition into the energy market had to respect individual states' concerns over security of supply and long-term investments.

Mr Ailleret said it would be ironic if Brussels were to allow EU states less subsidiarity, or leeway, in energy policy than the federal government "in a real country like the US" permits individual American states.

Meanwhile, EdF yesterday played down a report that it was considering buying pumped storage facilities which the UK National Grid is planning to sell off. It said that while it was in general interested in buying more production capacity in Europe, it had made "no decision, even on the principle" of such a UK purchase.

Slovak privatisation U-turn shocks funds

New government says bonds will be fairer to investors than shares, reports **Vincent Boland**

Slovakia's brief flirtation with popular capitalism appears to be over. The coalition government dominated by the increasingly authoritarian prime minister, Mr Vladimir Meciar, this week abandoned plans to give shares in state enterprises to citizens in exchange for vouchers they bought last year as part of the previous government's version of mass privatisation.

Instead, investors are to be offered five-year, state-backed bonds, worth a nominal Sk10,000 (£209), for each book of vouchers costing Sk1,000. This proposal in effect spells the end of coupon privatisation, the popular sell-off method used for the first round of privatisation throughout former Czechoslovakia, including Slovakia.

The move has shocked fund managers in Bratislava who thought they had become used to politically motivated privatisation U-turns. The funds, which became active shareholders after the first wave of sell-offs in 1992, had been preparing new privatisation funds to invest shares in newly privatised companies on behalf of voucher holders but are now uncertain about the future.

Some 3.5m Slovak citizens bought voucher booklets last year when the previous government, led by Mr Jozef Moravcik, announced plans to resume mass privatisation. But this was interrupted after last autumn's general election when Mr Meciar cancelled the sell-off and announced a complete revision of privatisation after assuming office in December.

Mr Meciar claims his new model will be "much fairer" and criticised the original voucher schemes as transferring property "to the full and absolute control of the privatisation funds... not of all of which had honest intentions".

But Mr Meciar's critics claim that the new version will favour managers of enterprises and his supporters. "We cannot talk about voucher privatisation any more," says Mr Jozef Oravkin, general director of VUB Invest, which manages Slovakia's largest privatisation fund from the first round.

The interest-bearing bonds, issued in the name of the National Property Fund, will be convertible into state-owned property, including apartments. It is not clear, however, if they can be traded during the five-year period or redeemed for cash.

Unveiling the scheme earlier this week, Mr Meciar said it would make individual shareholders "an active and dominant factor" in further privatisation, but did not explain how.

Analysts said it could have the opposite effect by turning the National Property Fund into a giant holding company under government control. The NPF, which still owns most state industry, is supposed to be abolished when privatisation is completed.

Analysts also doubt whether voucher holders will be better off receiving bonds rather than shares for their booklets. The government last month unveiled plans for the privatisation of state companies with a book value of Sk250bn, of which assets worth Sk40bn were earmarked for sale through vouchers. But lucrative energy companies are excluded from the coupon scheme which is stuffed with antiquated water and sewerage distribution companies, unattractive to investors.

Mr Martin Cabadaj, an executive at Creditanstalt Capital Markets in Bratislava, says the share price of these companies would probably fall well below book value when the stock became tradeable, leaving investors with big losses.

Already much of Slovak industry is run by men close to Mr Meciar's Movement for a Democratic Slovakia party and hostile to "interference" by the funds. The ending of coupon privatisation will prevent many new funds from acquiring shares, thus curtailing their influence and keeping corporate governance out of their hands.

"This is terrible news not just for the investment funds but for the investment scene generally," says Mr Thomas Grey, principal investment officer at Slovak International, another fund manager.

As share prices fell from the peak of last year's artifical boom, some investment funds failed to make guaranteed returns to investors from the earlier privatisation round, feeding official hostility. The finance ministry has placed two big funds in administration in six months, charging executives with mismanagement and failure to protect the rights of minority shareholders.

But the best-run funds had begun to assert their influence on companies, changing management where necessary, pushing for returns on their investments, and using the stock market as an independent source of capital rather than the mainly state-controlled banks. It is this independence which the government's new scheme seeks to curtail.

EUROPEAN NEWS DIGEST

Faster trains in prospect

High-speed trains will carry passengers across Europe at np to 500kph within the next 20 years, Mr Ake Nilsson, a senior vice president at ABB Transportation, said yesterday. The fastest trains on the European network at present are the 300kph *trains à grande vitesse*, in use on the French railway, although there are plans to raise the top speed to 350kph shortly, he told an FT conference on "Transport in Europe towards 2020".

Even more significant in terms of the profitability were improvements in traffic control and signalling systems which would allow high-speed trains to run safely at more frequent intervals and permit the accurate tracking of a train's position, Mr Nilsson said.

While trains would offer faster services in the future, congestion would slow average journey times by both air and car, said Mr Chris Tarry, director of research at Kleinwort Benson Securities. Rail was expected to dominate intercity travel on busy routes over medium distances such as Paris to Brussels, said Mr André Clodong, permanent secretary of the European Aviation Club, a think tank.

Charles Batchelor, Transport Correspondent

Key interest rates come down

Expectations that the Bundesbank might cut German interest rates in coming weeks were boosted yesterday after the Dutch and Belgian central banks announced rate reductions.

The Dutch bank, announcing a cut in its official interest rate by 25 basis points to 3.75 per cent, said the move was an attempt to curb the strengthening guilder, the strongest currency in the European monetary system. The Belgian bank followed suit, lowering two of its technical rates slightly, in an apparently co-ordinated action.

The Dutch move fuelled speculation in financial markets that German rates might soon be lowered from 4 per cent, as the Dutch and Belgian central banks normally work closely with the Bundesbank. Speculation has also been bolstered by recent signs of weaker than expected German growth.

Gillian Tett, Economics Staff

Turks' 'friendly' snarl at Greece

Turkey's parliament yesterday authorised the government to declare war on Nato ally Greece, hnt said the resolution was intended "with friendly sentiments". The resolution followed ratification by the Greek parliament last week of the international Law of the Sea treaty, which authorises territorial waters of 12 miles. Turkey is not a signatory to the treaty, and has always warned that it will go to war to prevent Greece extending its territorial waters beyond six miles. It says the 12 mile-limit would turn the Aegean sea into a "Greek lake", because of its numerous islands.

Most analysts believe that while both governments encourage mutual animosity for domestic political purposes, they are careful to prevent the long-running Aegean dispute from escalating. However, one diplomat warned "the stakes are getting higher."

John Barham, Istanbul

German demand on ozone

Germany's Green party has demanded that agricultural and construction workers be allowed to stop work if ozone levels exceed 180 microgrammes per cubic metre of air. In a series of measures designed to combat higher ozone levels during summer months, the Greens said people working outside should be informed when ozone reached peak levels.

The party also called for traffic to be banned on one Sunday a month between May and October in an effort to reduce car exhaust emissions. The demands are part of a fierce debate in Germany about how to reduce the levels of ozone, which is known to cause headaches and respiratory problems.

In a further attempt to combat environmental problems caused by rising traffic levels Mr Günter Rexrodt, economics minister, signalled a significant change in policy earlier this week when he said Germany would unilaterally introduce a tax on emissions of CO_2 if international agreement could not be reached.

Michael Lindemann, Bonn

Court rules in ice cream war

The European Court told two leading German ice cream makers yesterday they must share freezer space with Mars ice cream products hut refused to endorse a total ban on exclusivity agreements. When Mars tried to enter the German retail ice cream market in the early 1990s, it ran up against exclusive retail agreements between Scholler and Langlese-Iglo, a subsidiary of Unilever, and German ice cream retailers.

Mars appealed to the European Commission, saying this broke European competition law, and in 1992 Brussels barred Scholler and Langlese from entering into any exclusivity agreements before 1998. It also told the German ice cream makers they could not enforce current agreements. The court ruling followed challenges to the Commission decisions by Scholler and Langlese.

Reuter, Luxembourg

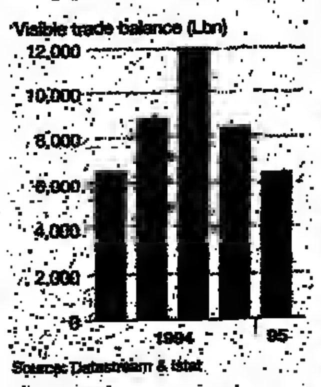
Eta blamed for gun attack

The head of a police anti-terrorist squad in the Basque city of San Sebastian was shot in the back of the head yesterday morning by a gunman presumed by police to belong to the Eta separatist organisation. It was the third such shooting in the city this year. The victim, 46-year-old Enrique Nieto, who headed the Spanish national police force's local investigative branch, was said to be in a serious condition. The attack came a month after the kidnapping of Basque businessman José María Aldaya at Hondarribia near the French border.

David White, Madrid

ECONOMIC WATCH

Italy's trade surplus shrinks



Italy's trade surplus narrowed to L6,001bn ($3.66bn) in the first quarter, compared with L6,465bn in the same period last year. According to figures published yesterday by Istat, the national statistics office, the surplus with non-EU countries improved to L4,519bn (L4,227bn). But there was a marked narrowing of the surplus with the rest of the EU to L1,482bn (L2,238bn). Total imports from EU countries increased by 22.8 per cent in the first quarter; exports by 19.7 per cent. Corresponding figures for non-EU countries were 24.3 per cent and 21.9 per cent. The main areas of surplus were textiles, leather and clothing, and mechanical engineering products, but the deficit in chemical goods continued to widen. Istat also published figures for the four months to April for trade with countries outside the EU, which show an increase in the surplus to L7,241bn, against L6,158bn in the first four months of last year.

Andrew Hill, Milan

■ Consumer prices in west Germany rose 0.2 per cent in May from April and were up 2.2 per cent year-on-year, according to final figures from the federal statistics office. The figures were revised upwards from a provisional 0.1 per cent and 2.1 per cent respectively.

■ Poland had a $2m current account deficit in April after $395m the previous month, the national bank said.

■ Unemployment in Romania fell to 10.3 per cent of the workforce in May from 10.5 per cent the previous month, the labour ministry said. The jobless total was 1.151m, down from 1.183m in April.

Selling Ecus in the D-Mark's heartland

Andrew Fisher sees the commissioner from Brussels promoting Emu to sceptical Germans

Mr Yves-Thibault de Silguy was in the land of the sceptics yesterday and he was made well aware of it. The European commissioner for monetary affairs had come to Frankfurt, where the Bundesbank watches hawk-eyed over the D-Mark, to argue the cause of European monetary union and explain the mechanics of its introduction.

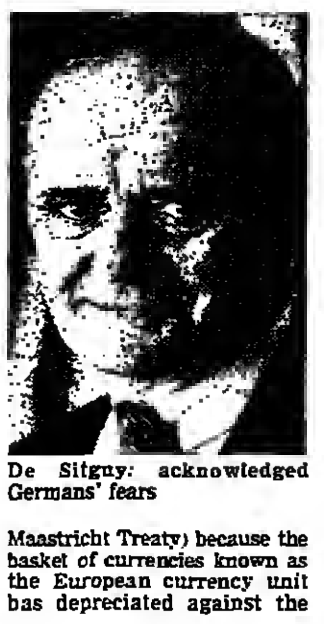
Since he was speaking at a conference organised by the EU Commission with Deutsche Bank, Germany's biggest bank, Mr de Silguy had a strong ally. Mr Ulrich Cartellieri, a director of the hank, hegan with a pithy, gung-ho defence of Emu, warning of dire consequences for European economic growth, jobs and stability if the project was derailed.

But Deutsche Bank, *for all* its Euro-enthusiasm – linked to its pan-European and global banking ambitions – is not the German citizenry. Mr de Silguy knows his task of selling Emu to the European people faces a big hurdle with the reluctance of the Germans to give up the D-Mark.

"I am very much aware of the fears raised in Germany by the prospect of monetary union," said Mr de Silguy. With the Swiss franc and the yen, the D-Mark was one of the three most stable currencies. Thus the fear of losing the D-Mark was "perfectly comprehensible". But it was also groundless, be claimed. Like Mr Cartellieri, he said Emu was essential for the single European market.

He recognised that the name of the proposed European currency was important for the Germans.

Repeating German objections to the name Ecu (as in the



De Silguy: acknowledged Germans' fears

Maastricht Treaty) because the basket of currencies known as the European currency unit bas depreciated against the D-Mark, Mr Cartellieri said the idea of calling it the Euro-Franken deserved wider discussion.

"The commission is fully aware that the name of the single currency causes problems in Germany," Mr de Silguy said. But this issue could not be allowed to hold up progress towards Emu. "If we discover that this [the name Ecu] genuinely causes problems, we will then have to arrive at some solution at heads of state level."

Apart from the name, however, plenty of other German objections were raised in the wake of the Commission's green paper on Emu's introduction. Questioners expressed concern over the costs of switching to a single currency, whether a European central bank could achieve credibility and bow well the economic convergence criteria would be enforced.

Even some supporters worried about Emu's implementation. "The D-Mark has an extraordinary symbolic value," said Mr Reinhard Kudiss, monetary expert at the German industry federation (BDI). But transferring the D-Mark into a unified currency at too high a level would lock in high costs for industry.

In a paper on Emu this week, the BDI said companies would hold back from making the necessary investments and preparations until they knew which countries would participate in Emu, and when and how it would occur. "As long as no binding political decisions have been taken on these questions, every preparatory activity and planning is a hazardous game."

Mr Manfred Neumann, an economics professor at Bonn university, poured the most cold water on Emu yesterday. To lively applause, he questioned whether a joint currency would have enough credibility and whether the plans took adequate account of the needs of the labour market. Costs of moving to Emu would be high and the currency was still unnamed: "If politicians can't agree a sensible name, it makes the whole thing dubious."

The loquacious Mr de Silguy was unfazed. He was not disappointed at the scepticism, because he knew Germany's problems with Emu, he said. But the Maastricht debate could not be reopened. "The treaty has been signed and it will be applied and a single currency is going to happen," he asserted. He still has plenty of persuading to do, however.

Soul-searching on agenda at German party congress

FDP wonders how far right it can move, reports Judy Dempsey

Germany's liberal Free Democrats (FDP), the junior partners in Chancellor Helmut Kohl's governing coalition, begin a special congress today aimed at addressing a string of election defeats. Bnt already widespread pessimism and opinion polls are damping the enthusiasm for a new beginning.

A poll published yesterday in Die Welt newspaper found 50 per cent of respondents believed the party was superfluous.

Then Ms Ruth Witteler-Koch, one of the party's deputy leaders, told German radio the FDP was "infected with a killer disease". She added she would not be standing again for a party post during its three-day meeting in Mainz, near Frankfurt.

This pervasive downbeat mood stems mainly from the party's miserahle performance in recent elections. Its neglect of its grass roots in eastern and western Germany has also contributed to the malaise.

Under the helm of Mr Klaus Kinkel, the foreign minister, who resigned as leader last month, it lost 11 state elections over the past 20 months and failed to win representation to the European Parliament.

Over the same period, its membership has fallen from 93,100 to 84,000, and its representation in the Bundestag, or parliamentary lower house, fell from 79 to 47 seats after federal elections last October.

The FDP, traditionally the kingmaker in German politics, is now no longer the country's third largest party. The increasingly influential Greens hold that position.

Whether the party will succeed in stemming its decline in time for elections in Berlin next October and in Baden-Württemberg next spring and, further down the road, federal alections in 1998, will depend to a large extent on who will be elected as leader this weekend.

If he (only men are standing) fails to come up with a strategy to reverse the party's fortunes, then, according to officials from the governing Christian Democrats (CDU), Mr Kohl would be prepared to drop the FDP as a coalition partner. At the same time the opposition Social Democrats could choose to seek out the Greens as coalition allies.

The two main contenders for leadership are Mr Wolfgang Gerhardt, 51, FDP leader in the state of Hesse, and Mr Jürgen Möllemann, 49, former economics minister and former party hoss of North Rhine-Westphalia.

Mr Gerhardt, involved in liberal politics since the 1970s, wants to unite the various wings of the party but at the sama time to return the party to its traditional libertarian values of defending the individual against the state, curbing the bureaucracy, and promoting an economy based on lower taxation and more free enterprise.

Most delegates expect Mr Gerhardt to defeat Mr Möllemann, who has similar policies but who was forced to resign as economics minister in 1993 after abusing his office to promote the business interests of a friend.

But FDP members admit that a return to these liberal values may not be enough to save the party. "The Greens have stolen our real liberal values. We have no sense of direction any more," says Ms Cornelia Pieper, delegate from the eastern state of Saxony-Anhalt.

In western Germany, liberal supporters believe the Free Democrats have only themselves to blame, having served for more than a dozen years (after pulling out in 1982 of the SPD coalition) in a conservative government slow to deregulate the economy or reduce taxation.

"We have completely lost our identity. We are so often beholden to the CDU. We've been in power too long," says Ms Cornelia Schmalz-Jacobsen, a memher of the FDP's national committee and a representative of the left wing of the party.

The party's prohlems have also provoked a debate among liherals about how far the party can move to the right to attract voters. Some members, want the party to adopt a mucb tougher position on crime and internal security.

Against this, Ms Sabine Leutheusser-Schnarrenberger, the justice minister, and Ms Schmalz-Jacobsen want the party to end the drift to the right and return to its defence

Gerhardt: wants to return to libertarian values

of individual citizens' rights.

Party officials admit any new leaders will find it difficult to marry these two wings. "Maybe the losers after this congress will leave the party. But one thing is clear. We cannot afford to move to the right. It would go against everything we stood for in the past," insists a senior liberal member.

Berlusconi TV channels win breathing space

By Robert Graham in Rome

The three television channels owned by former Italian premier Silvio Berlusconi looked set to escape sanctions for political bias in advance of Sunday's referendums on the future of commercial TV, after a Milan administrative court ruling late on Wednesday.

Last-minute legal tactics to penalise Mr Berlusconi's Fininvest television interests were yesterday caught up in the time-consuming weh of Italian judicial practice. As a result sanctions, if any, are now expected only after the referendum.

Despite a plethora of contrary statements, this outcome should offer comfort to almost everyone in the venomous hattle Mr Berlusconi is waging to retain his three channels.

Of the 12 referendums three are directed against Mr Berlusconi's dominance of commercial television and its advertising revenues.

These call for a limit on television ownership to one channel, cutting advertising time during the projection of films and preventing monopolistic control of TV advertising.

With so much at stake, each side bas used every device above and below the belt to score points and influence public opinion. In so doing the Berlusconi camp has managed to dent the credibility of the media watchdog commission, which it claims is prejudiced against the media magnate-turned-politician.

This bas been trumpeted as a great victory. But Mr Berlusconi has been denied the martyrdom be sought by courting the sanction of a television black-out. If a hlack-out of his screens had heen ordered, it might have been the decisive element swinging the vote in his favour. Fininvest channels, which account for 45 per cent of the national audience, run some of the most popular soaps and films.

Last week the commission ordered Fininvest's three channels to run 13 free advertising slots giving the views of the opposing camp to offset excessive defence of Mr Berlusconi's own interests. Failure to do so by last Tuesday carried the threat of a heavy fine or a black-out of up to 15 days.

Tuesday passed and no sanctions were imposed. Taking heart, Mr Berlusconi's supporters lodged a challenge in Milan questioning the correctness of the media watchdog's actions. The court ruled in favour of Fininvest.

The court argued that promotional material about the television stations' operations did not violate rules drawn up hy the Dini government to ensure fair coverage during elections. Yesterday the ruling was in turned challenged by the anti-Berlusconi camp. But the challenge was unlikely to be resolved before next week, given legal red tape.

The media watchdog commission was also taking legal advice about whether an administrative court could overturn its decisions. The ruling threatens to undermine the authority of the decisions taken by what was intended to be the ultimate arbiter of fair play in the media.

NEWS: ASIA-PACIFIC

Parties scramble to sign up MPs as registration for elections closes

Thai PM to face strong challenge

By Ted Bardacke in Bangkok

After two furious weeks of backroom negotiations, the battle lines have emerged for Thailand's July 2 general election, with Mr Chuan Leekpai, the incumbent prime minister, set to face a serious challenge from Mr Banhan Silpa-archa, leader of the resurgent Chart Thai party.

With today the last day for political parties to register candidates, more than 100 former MPs have signed up to run under the Chart Thai banner. Mr Chuan's Democrat party has registered 85 MPs, plus some other prominent figures including Mr Supachai Panitchpakdi, who has been deputy prime minister without holding a seat.

Analysts say that because of the patronage system prevalent in Thai politics, 80 to 90 per cent of former and sitting MPs are likely to be re-elected. No party is expected to win enough seats in the 391-member parliament to form a government on its own.

However, the party that wins the most parliamentary seats will get the first crack at forming the inevitable coalition government, so a mad scramble aimed at convincing former MPs to switch parties took place leading up to candidate registration.

Chart Thai, whose two deputy leaders face accusations of drug smuggling in the US, was alleged to have given as much as Bt20m ($800,000) to each former MP willing to switch over to the party. Whether sweeteners were available or not, at least 17 accepted its overtures.

Mr Banhan and other party officials have denied the charges of candidate-buying but have said that Chart Thai candidates will have access to a large campaign war chest. Researchers predict between $650m and $1.2bn will be spent by political parties during the elections. This money will go for campaign expenditures, including the long-standing Thai tradition of vote-buying.

The Democrats, trying to cling to their "clean" image, have said they will not engage in vote-buying and have attacked the 10 other parties participating in the election for doing so. This tactic has initially drawn a good response in urban centres like Bangkok, where tough anti-corruption rhetoric plays well. In the capital, 20 per cent of respondents to a poll by Bangkok University said they would vote for the Democrats, 9 percentage points more than the party's closest rival, Prachakorn Thai, a small party whose support is confined to Bangkok.

But with more than three quarters of MPs elected from small towns and rural areas, the showdown between the Democrats and Chart Thai is likely to take place in the unpredictable provinces. The voting age has been lowered from 20 to 18, and 31 new seats have been added to parliament, making the election outcome even more difficult to project.

Already some analysts are suggesting that neither Mr Chuan, tainted by a land reform scandal that forced him to call snap elections, nor Mr Banhan, weakened by the dubious reputation of some of his close associates, will get enough clear-cut support from minor parties to form a stable government.

In that case, dark horse candidates for the premiership, such as Mr Thaksin Shinawatra, the telecommunications tycoon, or Mr Amnuay Viravan, a former deputy prime minister, may be called in to break the deadlock and form a coalition.

Looser money ruled out as a cure

Japan's banks are disappointed by 'rescue' package. **Gerard Baker** reports

Scarcely a week goes by in Tokyo these days without the solemn unveiling of another emergency package of measures to rescue Japan's economy from the clutches of depression. Yesterday the finance ministry responded to the growing calls for action to address the fragility of the financial system by announcing a series of steps aimed at restoring stability.

But the ministry's announcement of support for the banking sector, which is plagued by bad loans, contained no trace of the measure banks had most been looking for – extra injections of cash from the public sector.

The ministry said the Bank of Japan would be permitted to use Article 25 of its constitution, a clause that says the bank will provide unlimited financial assistance to troubled banks, when necessary. But since it is already permitted to do so this bardly represented a significant departure. Public opposition to the use of taxpayers' money is vociferous, and the finance ministry is clearly not yet ready to take any political risks.

Instead the principal aim of the package seems to have been an attempt by the bank to restore confidence by reasserting its commitment to the financial system. The ministry was stung by comments two weeks ago from Moody's, the US credit rating agency, that the authorities no longer appeared able to underwrite the banking system. It seems to have been particularly anxious to dispel any such fears.

But any failure of the measures to give more than verbal reassurance will have serious consequences, and not just for banks. The Japanese economy is currently locked in a vicious deflationary circle, with chronic financial instability at its centre. Falling land and stock prices have weakened companies' ability to borrow and invest, lowering growth rates. The bad loans accumulated by the banks also weakens their ability to lend. The combination further undermines demand in the economy as a whole.

In recent months that downward spiral has accelerated. The weakness of the economic recovery, which is on the verge of petering out completely, has depressed demand for lending further. Another sharp fall in land prices has added to the bad loan pile-up. And the continuing malaise in the stock market has all but wiped out the reserves held by many banks for the purpose of provisioning against the bad loan themselves.

Many banks now find themselves in the increasingly uncomfortable position of having limited reserves with which to finance further write-offs of bad debts. Official problem loans at the leading 21 banks total about Y12,000bn ($140bn), but according to Ms Alicia Ogawa, financial sector analyst at Salomon Brothers in Tokyo, the real figure, including restructured loans, which are not counted in the disclosed figures, is closer to Y30,000bn.

That figure is equivalent to nearly half the banks' resources available to cover those debts, their capital and unrealised equity gains. For several banks the problem loans figure is higher than their capital and equity gains. Without either a sudden increase in demand, or a sharp recovery in the stock market, these banks will face greater difficulties in wiping out their remaining bad loans.

Their problems are particularly acute in relation to housing loan companies, small institutions to whom they lent heavily in the 1980s. Here too there was little in the way of specific commitment from the ministry. The government's main recommendation for the banks seemed to be the encouragement of mergers among weaker institutions – a move not obviously likely to restore financial soundness.

There was no evidence either that the government is prepared to give further tax concessions to banks to write off bad loans, nor was there any attempt to open up a secondary market in the problem loans – a measure that would enable the banks to cut their losses by disposing quickly of their poor quality assets.

But perhaps most importantly, neither was there any sign of a real shift in the one policy that could do more than any to assist the banks – monetary policy. As Mr David Snoddy, analyst at Jardine Fleming in Tokyo, points out, an easing of policy would be the simplest way of floating the financial system back to buoyancy.

"The Bank of Japan could simply increase the amount of liquidity it ploughs in every day to the banking system. That would help to lift many banks away from their asset quality problems. But it still chooses not to," he says.

That may well prove the key to the inactivity. Any assistance for the banks would mean a clear loosening of monetary policy. And despite the faltering recovery there is little sign yet that the bank wants to be rushed into another monetary loosening merely to help out a few weak banks.

The Japanese government is planning to cut interest rates on its yen based loans to developing countries for the first time since 1988. The foreign ministry said the move reflected the recent decline in interest rates and said the cut would apply to fresh yen loans. Emiko Terazono reports from Tokyo.

Although Asian countries including China and Malaysia have been asking for cuts in rates on outstanding loans to reduce their debt burden following the yen's recent appreciation, ministry officials said the decision would not affect interest payments on outstanding loans.

Most Asian currencies are tied to the dollar, and the recent plunge in the dollar against the yen has increased the countries' debt service costs. Concerns that the financial burden could lead to a debt crisis among developing Asian countries have been raised within the Japanese financial community. Japanese government officials yesterday reiterated their stance that the recipients of the aid should bear the foreign exchange risk.

The ministry plans to reduce interest rates by 0.3 to 1 percentage points depending on the country, while interest rates on loans for environmental programmes will be reduced by a further 0.2 points.

Yen loans to developing nations carry interest rates between 1 to 5 per cent, depending on the level of the country's economic development, and the rate cuts will not apply to loans to the least developed countries which are already eligible for the minimum interest rate of 1 per cent.

ASIA-PACIFIC NEWS DIGEST

Withhold rice, Seoul urges

South Korea's national unification minister yesterday urged Japan to withhold emergency rice supplies requested by North Korea until Pyongyang agrees to meet Seoul officials on the food aid issue. Mr Rha Woong-bae said that if Japan provided rice to North Korea before South Korea it could hinder efforts by Seoul to establish dialogue with Pyongyang.

Although the request for rice from Japan was an embarrassing confession that it suffers food shortages, North Korea hopes to use the issue to strengthen relations with Tokyo while isolating Seoul from its allies. Seoul sees North Korea's need for rice as a way to resume talks with Pyongyang, which has refused to hold discussions with South Korea for the past year. South Korean President Kim Young-sam has offered to supply rice to the North, but Pyongyang has refused the aid. *John Burton, Seoul*

NZ no-confidence vote in view

Opposition parties launched no-confidence motions against New Zealand's conservative government yesterday, but its survival was not under threat. The left-wing Alliance party, reversing an earlier commitment not to seek to bring the government down, put forward its motion during a stormy debate on last week's budget. The main opposition Labour party has also tabled a no-confidence motion. The government holds 47 of the 99 seats in parliament, and can rely on support of four other MPs from small parties. *Reuter, Wellington*

Vietnam expels POW activist

Vietnam yesterday ordered Mr Bill Hendon, a US prisoner of war activist, to leave the country. Mr Hendon, who claims Vietnam is still holding American POWs, said the foreign ministry sent him a letter declaring him persona non grata and telling him to leave Vietnam when his visa expired.

The former Republican congressman had been involved in a stalemate with US officials in Hanoi for six days, and twice chained himself to the gate of the US military compound. He demanded officials take him to investigate his claim that Vietnam was holding POWs in an underground jail in a security zone on a mountainside 50 miles from Hanoi. Vietnam denied his charge. *Reuter, Hanoi*

NSW to open electricity market

The newly elected Labor government in New South Wales, Australia's most populous state, said yesterday that it was aiming to establish a "competitive market" in electricity supply by the beginning of 1996. In his first economic statement, Mr Michael Egan, treasurer, said that the government planned to keep distribution, transmission and generation of electricity in public hands, although the various units would be "corporatised" – that is, run on commercial lines. However, the retail supply of electricity would be opened to full competition, he said. Electricity supply in Australia has traditionally been the province of state-owned monopolies. The NSW announcement follows a move by Victoria to privatise its entire electricity industry. *Nikki Tait, Sydney*

■ The state-owned Electricity Corporation of New Zealand is being split into two competing state-owned enterprises in a move which the government said was designed to encourage the development of a wholesale electricity market and encourage private sector generators. *Reuter, Wellington*

■ Australia's unemployment rate rose in May to 8.5 per cent from 8.3 per cent in April, with the number employed falling by 21,400 during the month. However, two thirds of the jobs lost were part-time, and the May weakness followed a very large gain the previous month. *Nikki Tait, Sydney*

■ China's industrial output rose 13.1 per cent in May and was up 14 per cent in the first five months of the year, the State Statistics Bureau said. *Reuter, Beijing*

■ Japan's April machine tool orders rose 44.7 per cent in April from a year earlier but were down 5.4 per cent from the previous month, the Japan Machine Tool Builders' Association said. *Reuter, Tokyo*

Singapore welcomes Rangoon pariahs

Help for military regime upsets west, writes Kieran Cooke

General Than Shwe, head of the State Law and Order Restoration Council (Slorc), Burma's military regime, is not a favoured guest in many countries. But it is different in Singapore. Yesterday the island republic rolled out the red carpet for the general and several of his senior ministers as they arrived on a four-day visit.

Singapore, supported to varying degrees by fellow members of the Association of South-East Asian Nations, has been advocating what it describes as constructive engagement with the Rangoon regime. Many western countries, including the US, say Singapore's policy is misguided: the Burmese military crushed a pro-democracy uprising and killed hundreds of demonstrators in 1988.

Western countries say the results of elections in 1990 which gave an overwhelming victory to the opposition should be recognised. All political prisoners, including Ms Aung San Suu Kyi, the opposition leader who has been under house arrest in Rangoon since mid-1989, should be released.

Opponents of the junta label Singapore's policy as destructive opportunism. According to officials in Rangoon, Singapore is now the top foreign investor in Burma, with an estimated $300m (£190m) invested mainly in the property and hotels sector.

Singaporean companies, led by government-controlled enterprises, are hoping to expand into other areas of an economy which has begun to grow after decades of stagnation. Official statistics published this week in Rangoon show Burma's gross domestic product rose 6.8 per cent in the year to March. It is expected to reach nearly 8 per cent this year.

Earlier this week the state-controlled Singapore Technologies Industrial Corporation said it had signed a memorandum of understanding for the construction of a S$500m (£227m) international airport in Mandalay, central Burma. The Keppel Group, Singapore's biggest company and also government-controlled, has so far raised $30m for a Myanmar Fund to channel investment into Burma.

Over the past three years the Singapore government has been urging business people to invest more abroad. It says such investment is vital: having outgrown its small domestic base, Singapore must go regional and develop a "second wing" to its economy.

Singapore has no shortage of funds for sucb purposes. Savings rates – at nearly 50 per cent of GDP – are among the highest in the world. Foreign reserves in February were officially put at S$85bn. But Singaporeans, used to a highly regulated environment at home, have found life difficult as regional entrepreneurs. Many have been unable to cope with the inefficiencies and corruption in China and Vietnam. Singapore government companies, rather than the private sector, have led the cbarge overseas.

Singapore now sees Burma as the region's new frontier. Government-to-governmeot relations are close. Mr Goh Chok Tong, Singapore's prime minister, was among the first of the world's leaders to visit Burma after the military crushed tbe pro-democracy movement. Singapore is widely believed to sell substantial quantities of arms to the Burmese military; Rangoon residents say Singaporean arms makers also use Burmese territory to test their products.

Not only does Burma appreciate the funds Singapore is bringing into the country, but the junta's close relations with Singapore have served as a bridgehead in its battle to gained wider legitimacy. Burma has also successfully cultivated closer relations with indonesia: Gen Tban Sbwe arrived in Singapore from Jakarta, where he had asked for Indonesian help in natural gas and oil exploration. Indonesian companies, led by conglomerates controlled by sons of President Suharto, are involved in forestry operations in Burma.

Vietnam joins the six-member Asean group at the end of July. Burma says it wants to join as soon as possible.

But while Gen Than Shwe and his fellow officers seek to make friends abroad, there are few signs of any more liberal moves at home. This week a former leader of the opposition, Mr Kyi Maung, was rearrested, apparently for having had contact with foreign diplomats.

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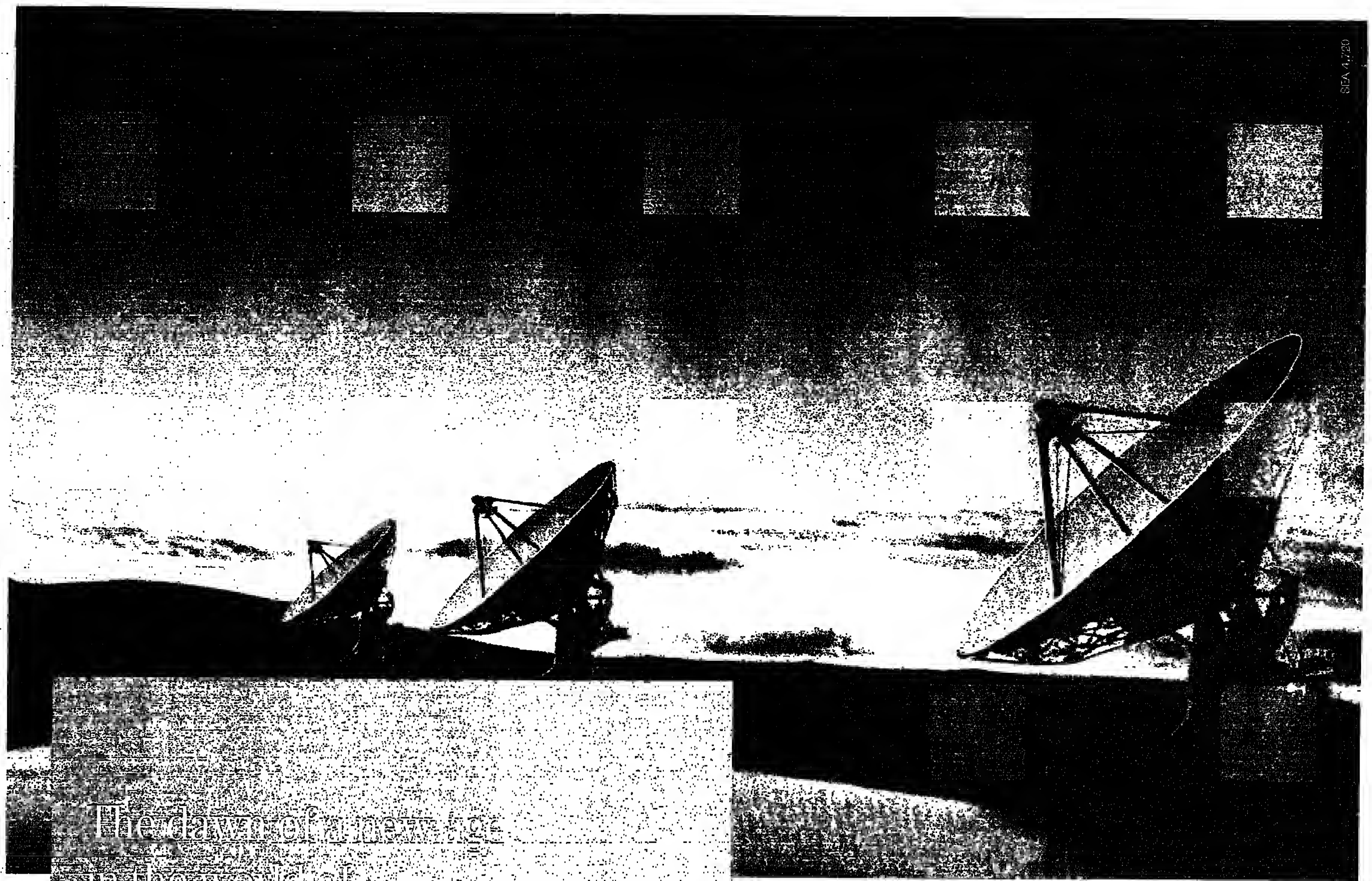

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NEWS: THE AMERICAS

House votes to keep US war powers act

By Jurek Martin in Washington

The US House of Representatives has voted not to repeal the 1973 war powers act, requiring congressional authorisation for the combat deployment of US forces overseas.

It did so on Wednesday night in spite of a strong, if barbed, speech by Congressman Newt Gingrich, the Speaker, in favour of repeal, and submissions by three previous presidents that the act unnecessarily tied their hands.

The 217-201 House vote saw 44 Republicans joining 172 Democrats and the one independent in the majority. Mr Gingrich said afterwards that he thought concern about possible US involvement on the ground in Bosnia was a clear factor, an explanation also advanced by the White House in justifying the administration's cautious approach to advocating repeal.

Even if repeal had been approved, the vote would probably have been academic, because it came in the form of an amendment to the foreign aid bill, which President Bill Clinton has threatened to veto for other reasons. He has described it as "the most isolationist piece of legislation in the last 50 years" and an affront to presidential authority in foreign affairs.

Mr Gingrich said Mr Clinton's failure actively to lobby for repeal was "frankly pathetic." He had argued that the president's hand in foreign policy "does not deserve to be undermined and cluttered and weakened." But his invocation of the president's name appears to have persuaded some right-wing Republicans to vote against repeal.

The war powers act was passed, after a veto by President Richard Nixon had been overriden, in the wake of the US invasion of Cambodia. It requires the president to inform Congress of a foreign military operation within 48 hours and to withdraw US troops within 60 days unless Congress specifically authorises continued deployment.

The House was, however, likely to approve its version of the foreign aid bill later yesterday. It would cut over 10 per cent from the administration's proposed $21.5bn foreign operations budget for the next fiscal year.

The $156m allocated to economic assistance would be whittled even further - by as much as 30 per cent over two years, but sparing the two principal recipients of US aid, Israel and Egypt. The bill would also merge the US agency for International Development (AID) into the State Department and impose conditions on relationships with China, Cuba and Russia.

The Senate foreign relations committee, under the chairmanship of Senator Jesse Helms, is marking up a similar version of the bill. But not every vote in the panel has gone Mr Helms's conservative way. The committee approved continued, though lower, US contributions for the UN population fund, which Mr Helms wanted to stop because of Chinese policies encouraging abortion.

Polls puncture Gingrich balloon

Deflated: polls cut Gingrich down to size off the big screen — Associated Press

By Jurek Martin in Washington

The Gingrich-for-president balloon was punctured yesterday by a pair of public opinion polls showing him well behind President Bill Clinton, and behind several Republican contenders for the party's nomination.

The Wall Street Journal/NBC News national survey found Mr Clinton beating the Speaker by 55-28 per cent in a hypothetical race. By contrast, the president was in a virtual dead heat (43-42 per cent) when matched against Senator Robert Dole, the majority leader.

A state poll of registered Republicans in New Hampshire, which holds the first presidential primary next year and where Mr Gingrich starts a highly-publicised visit today, showed little current enthusiasm for a candidacy. Of 400 surveyed, 52 per cent said they would encourage him not to run, against only 18 per cent in favour.

The survey gave Mr Dole 38 per cent, Mr Pat Buchanan 11 per cent, Senator Phil Gramm of Texas 7 per cent and Mr Gingrich 5 per cent. With the Speaker excluded, the preferences were Mr Dole 43 per cent, Mr Buchanan 16 per cent, Mr Gramm 9 per cent and no-one else over 1 per cent.

Mr Buchanan's relatively strong showing comes as no surprise. In the 1992 New Hampshire Republican primary he took 37 per cent against President George Bush's 53 per cent, his best performance in any state.

Argentina, UK seek oil deal

By Jimmy Burns and Robert Corzine

Britain and Argentina are hoping to reach a joint co-operation agreement on oil and gas exploration in disputed territorial waters around the Falkland Islands before the end of the year.

Following talks in London between Mr Douglas Hurd, the UK foreign secretary, and Mr Guido Di Tella, his Argentine counterpart, both sides agreed on the "desirability" of reaching agreement in the course of the summer, the Foreign Office said last night.

The talks underlined the importance oil and gas has taken on in relations between the two countries.

The Falkland Islands government is planning to announce its licensing round for oil exploration before the end of the year. The Foreign Office is understood to be reluctant to allow for unilateral action on oil and wants an agreement with Argentina that would not involve either side renouncing its sovereignty claims.

Brazil president beats off strike and pushes on with reforms

Dream hat-trick for Cardoso

Brazil's footballers put three goals past Japan on Tuesday, but President Fernando Henrique Cardoso's hat-trick was far more impressive.

In the last week he has beaten off an oil workers' strike, pushed forward a constitutional change to allow private competition in telecommunications and finally, on Wednesday, watched as the lower house of Congress backed his measure to break Brazil's 42-year-old oil monopoly.

Mr Sérgio Motta, communications minister and a close friend of Mr Cardoso, could be forgiven a moment of nostalgia. "Even six months ago the approval of these reforms was only a dream, in which not even the most optimistic believed," he said.

Brazil's politicians have a knack of zigzagging from triumph to disaster and opening the telecommunications and oil sectors still needs further confirming votes. But the government is showing an increasingly sure touch in Congress and the measures should be approved easily, silencing critics of Mr Cardoso's cautious first few months in office.

The vote to break the monopoly enjoyed by Petrobrás, the state controlled oil company, was easily the most torrid. The company's technological achievements appeal to Brazilian patriotism and its monopoly was seen by the left and far right as a protection from foreign domination.

Foreign oil companies will be able to compete with Petrobrás in all areas of operation

During an acrimonious debate ahead of the vote, supporters of the monopoly accused colleagues of selling out to foreign oil companies and a window was broken amid the tumult.

The vote, which the government won by 364 to 141 with 3 abstentions, allows private and foreign oil companies to compete with Petrobrás in all areas. Under the present constitution, Petrobrás has the monopoly over oil production, refining and transport. The lower house will vote again on the measure in two weeks, and it then passes to the Senate for two more votes.

Mr Roberto Lima Netto, the amendment's rapporteur, said the monopoly had to be broken as Petrobrás and the government did not have the $4bn-$7bn (£2.5bn-£4.4bn) a year the sector needed in investments. Petrobrás has grown into one of the world's top 20 oil companies, but Brazil's oil imports have tripled in the last 11 years as the company has not kept up with the country's growth.

Laws to regulate the newly opened sector will be discussed by Congress in coming months and it is unclear if competition can start before the laws are passed. The government circulated guidelines for how it would like to see the sector develop, and Mr Cardoso pledged he would not let its shareholding in Petrobrás fall below 50 per cent, apparently ruling out full scale privatisation at this stage.

A new regulatory body, to be set up under the mines and energy ministry, will oversee policy and award contracts. Petrobrás will be allowed to continue with exploration fields where it has already started production. But the government will review its remaining exploration areas to see whether the concession should remain with Petrobrás or be put out to tender.

The vote was warmly welcomed by the private sector. "The best news this year," was how one São Paulo banker described it. Foreign oil companies, restricted to services like running petrol stations, refused to celebrate publicly because of the subject's sensitivity. "This is a decision for the Brazilian public," said Esso.

One Brazilian who was celebrating was former planning minister Mr Roberto Campos. He is one of the fiercest critics of Petrobrás' inefficiencies and calls the company "Petrossaurus" because it is like a dinosaur. In yesterday's O Globo newspaper, a smiling Mr Campos was pictured preparing to smash a model of Tyrannosaurus Rex with his fist.

Angus Foster

Mexico in plan to issue fresh sovereign debt soon

By Leslie Crawford in Mexico City

Mexico plans to issue new sovereign debt in the international capital markets in the second half of the year, said Mr Guillermo Ortiz, the finance minister.

Mr Ortiz said he was surprised at the speed with which Mexico was regaining access to voluntary private capital following December's devaluation of the peso.

Against predictions that markets would remain closed to Mexico for a long time, government agencies such as Nacional Financiera, the state development bank, and Bancomext, which finances trade, had raised $700m (£445.6m) in the international markets since April. Bancomext was raising another $200m this week to promote Mexican exports, he said.

"Bank lawyers and rating agencies are in Mexico now to conduct due diligence and review the steps the Mexican government must take in order to regain access to the capital markets," Mr Ortiz said on Wednesday. "We hope we will be able to place medium-term paper as early as the second half of the year."

The need to borrow emergency funds from the International Monetary Fund and US Treasury would diminish as access to voluntary capital flows improved, he said.

Mr Ortiz admitted Mexico had come close to defaulting on its foreign debt in January and February, before the IMF and US Treasury came to the rescue with $38bn of emergency funds.

The repayment schedule in the second half of the year would ease significantly, he said. Mexico had already redeemed almost two-thirds of its $29bn *tesobono* debt, comprising short-term treasury bills linked to the dollar. Some $10.7bn of *tesobonos* remained to be paid in the second half of the year, as well as $5bn of other public debt. Mr Ortiz said he expected the latter would be refinanced.

He was still worried about the depth of the recession and its impact on jobs. Gross domestic product was expected to fall between 4 and 5 per cent in the second quarter, he said. However, the surge in exports since the devaluation was encouraging.

NEWS: WORLD TRADE

Japanese message loud and clear in US

Nancy Dunne reports on the effort Japan has thrown into winning the support of the American public in the car trade dispute

As the US and Japan near the June 28 deadline in their dispute over vehicle trade, the rhetoric and charges from both sides are heating up to a degree not seen since the Reagan administration in 1987 threatened sanctions against Toshiba Machine for selling tools to the Soviets.

The Japan Automobile Manufacturers Association has bought 30-second slots on US television to state its case. By threatening 100 per cent tariffs on 13 models of Japanese luxury cars, the US government is jeopardising the world trading system, Jama says in its broadcasts.

"How can an administration in favour of free trade, which strongly supported the World Trade Organisation, now break those rules by arbitrarily imposing sanctions on Japanese automobile imports? . . . US auto policy could drive you crazy," the Jama advertisement says.

Mr Pat Choate, an outspoken critic of Japanese policy, cites the Japanese charges as an example of Japan's potent publicity machine at work.

Typical of Japan's tactics is the Alliance to Save Car Jobs in California, which estimates the cost of sanctions at 250,000 jobs in the state. The alliance is financed by Japanese car companies and dealers, according to Mr Choate.

In contrast the US government has made little effort to win the support of the Japanese public, and the American Automobile Manufacturers Association, which does not even have an office in Japan, has remained silent in the country.

Mr Mickey Kantor, US trade representative, has appeared in Japanese news programmes to explain the US position in the car talks, and he has emphasised that US measures to open the market will provide Japanese consumers with greater choice and lower prices. Mr Walter Mondale, US ambassador in Japan, has also been trying to win the press over to the US cause. But most Japanese newspapers have remained uniformly critical of the US.

The Japanese, meanwhile, have been successful in gaining the support of US leader writers and columnists. Most agree that by threatening sanctions rather than taking its case to the WTO, the US is risking the future of the multilateral body it did so much to create.

The support of "opinion makers" has not translated into the support of the US public. Most polls show at least 7 out of 10 Americans in favour of a strong stand against Japan. For the most part, Congress has held its fire on the issue.

In Washington the Japanese car companies battle on. At a press lunch on Tuesday, Honda, Toyota and Nissan argued that the sanctions would hurt Americans more than the Japanese. They introduced a new concept into the debate: cross collateralisation. The contention is that the failure of Japanese luxury car dealerships could also bring down American dealers.

Opening dealerships nowadays is so expensive – even in the US – they said, that dealers have had to mortgage their established dealerships to pay for the additional luxury car showrooms. Over 2,000 dealerships, employing 81,000 Americans, are at risk.

The American Automobile Manufacturers Association, which has been somewhat of a laggard in the propaganda race, this week delivered glossy information kits to journalists. One paper calls on Japanese luxury car dealers to call the Ministry of International Trade and Industry at 011-81-3-3501-1511 to complain about US proposed retaliation.

"Nobody wants trade sanctions," the handout says. "And all it would take to avoid them – and any impact they might have on dealers and consumers – is for the Japanese government to agree to opens its market to American autos and auto parts."

That message has been received by the dealers. Mr Walter Huizenga, head of the association representing foreign car dealers in the US, is heading for Tokyo with four other dealers at the weekend to brief the Japanese companies on the potential fallout.

It is not just Lexus, Acura and Infiniti dealerships at stake, Mr Huizenga said. Cross collaterisation also jeopardises dealers of Hondas, Toyotas and Nissans.

He also will seek to explain the political climate in the US. "This is not about autos," he said. "It's about Clinton appealing to the unions. It's about the frustration members of Congress have in attempting to open other markets in Japan. Cars have become a symbol for all the closed markets in Japan."

At hearings yesterday on the impact of the tariffs, many Japanese companies found themselves relegated to the end of the witness list, endangering their opportunities for media exposure. One witness was Mr Sean Traynor, president of Garden State Tanning, an early casualty of the sanctions. His company makes the leather which covers "some of the best cars in the world," he said.

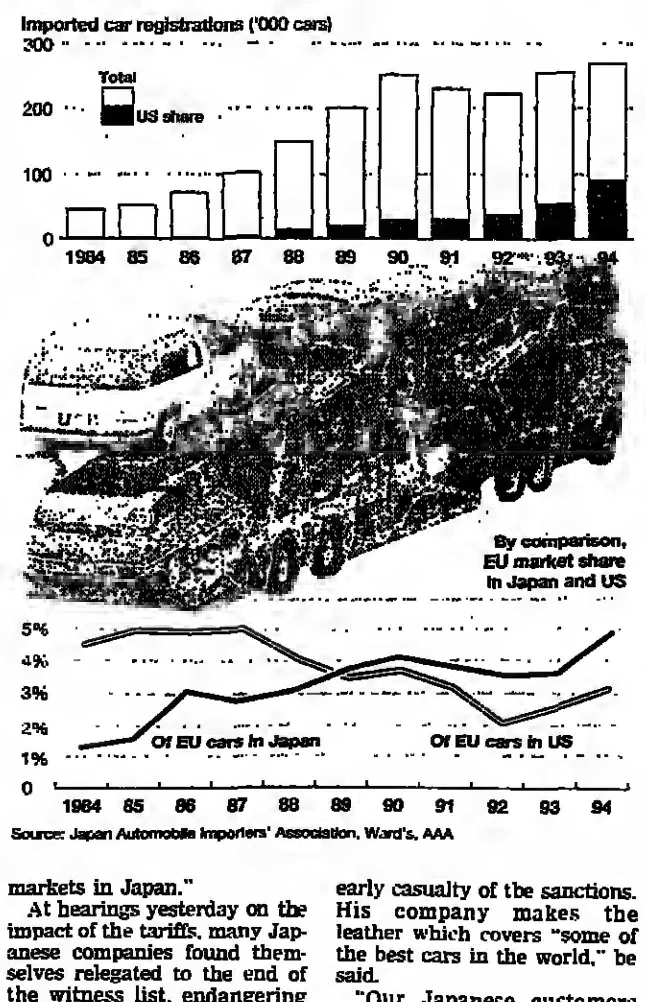
"Our Japanese customers reduced their orders to us," his text said. "Approximately 650 GST employees already have been laid off."

The US has turned down a European Union request to take part in car talks with Japan next week in Geneva, but has accepted a similar request from Australia, writes Frances Williams.

Japan asked for the talks, under World Trade Organisation auspices, to discuss threatened US trade sanctions on Japanese luxury cars. This is the first step in formal WTO dispute settlement procedures which could lead to creation of an independent WTO panel to rule on the dispute.

The US said it rejected the EU request because unlike Canberra, it had not demonstrated a substantive trade interest. However, it was prepared to consider a renewed application which did so. The EU and Australia fear a bilateral US-Japanese deal could discriminate against their manufacturers.

Japanese car market



Source: Japan Automobile Importers' Association, Ward's, AAA

Luxury cars forecast to give way to smaller models

By John Griffiths

Within three years, higher fuel taxation and restrictions on car use will start shrinking western Europe's luxury car market and throw the current sales boom in leisure four-wheel-drive vehicles into reverse, a report from the Economist Intelligence Unit predicts.

The trend within the region's vehicle markets throughout the rest of the decade will be a continuing reduction in car sizes, the report says.

But it says this will promote further expansion of one of the fastest-growing sectors of the market, that for multi-purpose vehicles (MPVs), typified by the market-leading Renault Espace, because it will result in new generations of smaller MPVs.

"Vehicles such as these are more in line with emerging European market conditions and could expand total MPV sales considerably," according to the report's author, Dr Peter Cope.

By the end of the decade, the MPV market could be expected to reach 442,000 units, nearly three times the current level.

In contrast, some industry observers believe the current market for MPVs is about to become overcrowded as Volkswagen, Ford, Peugeot, Citroen, Fiat, Honda and other manufacturers launch models in the sector this year.

The EIU report says sales of large luxury cars are forecast rise until the end of 1996 under the impetus of new model launches such as Mercedes' new E-class and BMW's 5-Series replacement. But between 1997 and the end of the decade luxury sales can be expected to fall by 19 per cent, or more than 170,000 units, as higher taxation and other legislative action against "gas guzzlers" bites.

However, the report predicts a bright future for the sports car and coupé sector as relatively fuel-frugal models such as Fiat's Barchetta and Rover's MGF are introduced. Sales in the sector are expected to rise by nearly one-third between now and the end of the decade.

The New Car Market in Europe – 1995 edition. The Economist Intelligence Unit, Regent St, London SW1Y 4LR. £395/$620.

FORECAST OF NEW CAR REGISTRATIONS IN WESTERN EUROPE (000 units)

	*1994	1995	1996	1997	1995	1999	2000
Small	3,680	3,834	3,922	3,964	3,956	4,106	4,170
Lower-medium	3,833	3,931	4,137	4,439	4,351	4,363	4,456
Upper-medium	2,599	2,653	2,694	2,579	2,514	2,484	2,481
Large/luxury	805	840	886	847	791	759	714
Coupés/roadsters	255	256	278	308	319	335	338
MPVs	166	219	291	347	408	425	442
Off-road	251	268	280	282	293	283	273
Van-derived	118	110	101	90	64	51	52
Others	73	59	61	64	64	64	64
Total	11,780	12,170	12,650	12,830	12,760	12,870	12,990

* Actual — Source: EIU

WORLD TRADE NEWS DIGEST

Du Pont forced out by protest

Thapar-Du Pont, a joint venture between the US chemicals company and the Delhi-based Thapar group, is to relocate its Rs6.25bn ($199m) nylon tyre cord project to Gummidipundi in Tamil Nadu, 40km north of Madras, from Kerim in Goa state, after environmentalists and local people campaigned against it. Du Pont claims the plant was the "cleanest and safest nylon plant in the world".

The fight between Du Pont and the villagers of Keri led to an activist being killed by police in February this year. Du Pont officials have not been allowed to enter tha site in Goa since. The company says the new plant will begin operations in late 1997, reducing nylon imports into India by more than 11,000 tonnes a year. *Shiraz Sidhva, New Delhi*

Seagate plans Irish plant

Seagate Technology, the US computer company, is to invest I£21.6m ($34m) in Ireland, making computer disk drives and creating 1,000 jobs. The project, on a site near Clonmel, County Tipperary, once occupied by Digital Equipment Corporation, will manufacture the 3.5 inch, 1 gigabyte hard disk drive for the European and worldwide desk top and personal computer markets.

The 3.5 inch hard disk drive accounts for 85 per cent of the total European disk drive market. Seagate, which has plants in Northern Ireland and Scotland as well as the US and the Far East, has 25 per cent of the European disk drive market. *John Murray Brown, Dublin*

■ Westfield Group, the Sydney-based property group specialising in shopping centre developments, has been awarded the retail development and management contracts at Washington National and Washington Dulles International airports in the US. Both the Washington airports are undergoing expansion programmes. Westfield will lease, market and manage the retail space at the two airports, via its US subsidiary, Westfield Corporation. *Nikki Tait, Sydney*

■ CAE, the Canadian electronics group, has won a US$34m contract for a flight simulator and training support for the Malaysian Air Force's MiG-29N aircraft. It is CAE's first military simulator sale in Asia. *Robert Gibbens, Montreal*

OECD Export Credit Rates

The Organisation for Economic Co-operation and Development announced new minimum interest rates (%) for officially supported export credits for June 15 1995 to July 14 1995 (May 15 1995 to June 14 1995 in brackets).

D-Mark	6.91	(7.34)
Ecu	8.22	(8.61)
French franc	8.18	(8.52)
Guilder		
up to 5 years	7.70	(7.20)
5 to 8.5 years	8.30	(7.75)
more than 8.5 years	9.05	(8.40)
Italian lira	11.38	(12.22)
Yen	3.40	(3.40)
Peseta	12.28	(12.79)
Sterling	9.05	(9.35)
US dollar for credits		
up to 5 years	7.27	(7.68)
5 to 8.5 years	7.41	(7.86)
more than 8.5 years	7.60	(7.95)

These rates are published monthly by the Financial Times, normally in the middle of the month. A premium of 0.2 per cent is to be added to the credit rates when fixing at bid. Interest rates may not be fixed for more than 120 days. SDR-based rates of interest are the same for all currencies. For the period from January 15 to July 14 1995, the SDR-based rate will be 7.35 per cent. It will be abolished, transition period included, on August 31 1996.

Unctad: model of UN reform, or dead duck?

Frances Williams weighs the past and the future of an agency whose role has long been under debate

Sitting in his spacious office overlooking Lake Geneva, Mr Carlos Fortin, acting head of the United Nations Conference on Trade and Development, does not look like a man soon to face execution. Despite Unctad's frequent appearance on the hit lists of would-be UN reformers, Mr Fortin believes the organisation will – and should – survive.

Faced with an outcry from developing countries after the Commission on Global Governance recently proposed Unctad's abolition, Mr Boutros Boutros-Ghali, UN secretary general, has already said he favours a "sharpened role" for Unctad in addressing development issues.

Nor have calls for Unctad's demise found much resonance among western nations, largely placated by the organisation's efforts over the past four years to revamp its operations and make its work more practical and relevant. The US, previously its arch-detractor, has even called Unctad a model for UN reform.

However, a leaked document prepared for a Group of Seven summit in Halifax, Canada next week identified the agency, among others, as one whose role was ripe for examination.

Public perceptions have, as Mr Fortin admits, been slower to change. Unctad was created at the instigation of developing countries in 1964 and reflected the prevailing development ethos that stressed government intervention and import substitution at home, coupled with a huge transfer of resources from North to South.

There were some successes. The UN aid target of 0.7 per cent of gross domestic product was an Unctad idea, as was the Generalised System of Preferences under which rich nations give duty-free access to goods from developing countries. International accords were negotiated on commodities, shipping and restrictive business practices.

But by the 1980s Unctad had become a by-word for sterile North-South confrontation. Its development principles were increasingly rejected not only by the west but by many developing countries, especially in Latin America. One by one, price-stabilising commodity agreements bit the dust. The trade action shifted to Unctad's neighbour in Geneva, the General Agreement on Tariffs and Trade, now the World Trade Organisation (WTO).

By 1992, when Unctad held its watershed conference in Cartagena de Indias, Colombia, it was a question of "reform or die". Imbued with the so-called "spirit of Cartagena", Unctad embraced the market (though not unreservedly), trade liberalisation (ditto) and the role of the private sector.

> **Unctad's not always popular ideas have often influenced debate, such as on debt relief for developing countries. Its economists can also claim to have warned from the start that Mexico and other Latin American borrowers were too dependent on speculative short-term capital**

The block system which institutionalised the opposition of industrialised nations and the developing world was dissolved. Less emphasis was put on negotiations and more on discussion and dialogue.

Unctad has also beefed up its technical assistance work in the trade, transport and finance areas, funded by $20m in voluntary contributions from donors. Unctad's regular $55m annual budget comes out of general UN finances.

Its technical assistance activities include a surprising but much-appreciated niche in software development. The biggest application is in customs computerisation, with about 70 countries now operating Unctad's Asycuda system. Others include programmes for debt management (in collaboration with the World Bank), commodities and transport.

Nothing irritates Mr Fortin more than suggestions that Unctad is obsolete following creation of the WTO, as the Commission on Global Governance and others have suggested. Unctad's role is complementary, he insists.

During the Uruguay Round of global trade talks it helped developing countries to play a full part in the negotiations, especially in the new areas of services, investment and intellectual property. It is now assisting them in incorporating the trade rules into domestic legislation and exploring ways to exploit enhanced trading opportunities.

Unctad's highly succesfull trade efficiency initiative, for example, is aimed at cutting trading costs and aid participation in world trade by establishing a network of trade information points around the world.

What is more, Mr Fortin points oul, the WTO remains primarily a negotiating and dispute settlement body. Unctad, on the other hand, has the mandate and capability to explore policy options and get dialogue going. It is already doing this for trade/environment links and competition policy, both areas which may eventually find their way into the WTO's negotiating arena.

Unctad, which with some 440 staff is about the same size as the WTO, also covers areas the WTO does not. These include commodities, aid and debt policies, multinationals and foreign direct investment, privatisation, transport, technology transfer, and development in the world's poorest countries.

Mr Fortin rejects claims that Unctad's analytical work duplicates that of the World Bank and the International Monetary Fund. "Pluralism does not necessarily mean duplication."

Though Unctad's ideas are not always popular with its western members they have sometimes influenced subsequent debate, for instance on debt relief for developing countries. Unctad's economists can also claim to have warned from the start that Mexico and other Latin American borrowers were too dependent on speculative short-term capital.

Anolber effort at refining Unctad's objectives and streamlining its activities will be made at Unctad IX, its ninth conference, next year.

Significantly, the UN secretary general has also pledged to fill the long-vacant post of Unctad secretary-general "in the near future". His failure to replace Mr Kenneth Dadzie of Ghana, who left in March 1994, was widely seen as a way of keeping options open while mulling Unctad's future. Mr Fortin, a Chilean, is said to be the favourite for the job.

Political rivalry stymies Caspian oil plans

By Robert Corzine and Bruce Clark

Intense political manoeuvring between Russia, Iran and Georgia has forced the first western oil consortium operating in the Caspian Sea to delay a decision on where to ship the early oil output from its offshore fields in Azerbaijan.

The 12 members of the consortium, which is led by British Petroleum but which also includes big US and Russian oil companies, yesterday said: "It will take a further three months of detailed joint negotiations with Moscow, Tbilisi and Tehran..." before a final export route is selected.

The export of the Azeri oil has become entangled in the wider struggle for political influence in the Caspian region. All three countries have been lobbying hard to be selected as the destination for the early oil from the $8bn project to develop the Azeri, Chirag and deepwater portion of the Gunashli fields. The first oil from the phased project is expected to flow in 1996.

Mr Terry Adams, the consortium director, recently said the choice of a route for transporting the initial 80,000 b/d of production had been narrowed to the Georgian port of Batumi, or the Russian port of Novorossisk.

The statement issued yesterday, however, suggested that Tehran, whose proposed inclusion in the consortium was vetoed by US members after political pressure from Washington, was back in the running.

A loophole in the US sanctions against Iran, which came into effect earlier this week, allows US oil companies operating in the Caspian region to enter into oil swap arrangements with Iran. US companies hold a 44 per cent share in the Azeri consortium.

Russia and Iran, backed recently by Turkmenistan, have effectively joined forces to insist that any extraction from tha Caspian Sea must be subject to the approval of all the surrounding states.

Some of the companies in the consortium yesterday suggested that more than one destination may eventually be selected because of the political complications which would arise if a single export route was chosen. Although the winner of the early oil would not necessarily be the choice for a long term transport solution, it could be seen as having an undue advantage over the others.

Yesterday's delay followed signs of a warming in relations between Russia and Azerbaijan, which has been regarded up to now as one of the most staunchly independent of the former Soviet repnblics.

Mr Albert Chernyshov, a Russian deputy foreign minister who is thought to wield considerable influence in the southern Soviet republics, visited Baku this week and called for a restoration of Moscow's tattered economic relations with Azerbaijan.

Mr Chernyshov bad an apparently cordial meeting with President Heydar Aliyev, a former member of the Soviet Polithuro who has steered his country away from Moscow's orbit hut is thought to have kept all options open.

In an equally significant development, the Russian embassy in Baku said General Andrei Nikolayev, commander of Russia's border troops, would visit Azerbaijan soon.

Unlike its neighbours Georgia and Armenia, Azerbaijan has so far resisted pressure from Moscow to allow the deployment of Russian troops on its own frontier. Any change in that stance would imply a change in Baku's strategic orientation.

Observers of the region said that if yesterday's decision to postpone the early pipeline route reflected a resurgence of Russian influence, there were several possible explanations as to why Moscow would want to stall the decision.

One was that Moscow's forces in the breakaway region of Chechnya have not as yet managed to crush the rebel forces led by Dzhokhar Dudayev, and they need some more time to do so. A Russian route for the early oil would almost certainly have to pass through Chechnya.

INTERNATIONAL NEWS DIGEST

Lebanon faces reconstruction funding dilemma

Lebanon's budget deficit is forcing the government to decide whether to impose draconian new taxes or dramatically slash reconstruction spending, Mr Fouad Siniora, acting finance minister, said yesterday.

He told bankers and financiers at a Financial Times conference that even if the cash-strapped government did its best to control spending and enhance revenues, the deficit would continue rising during the country's post-war reconstruction effort.

Mr Siniora said the state budget suffered a structural problem caused by a high proportion of fixed payments on debt servicing, public sector wages, social security and pensions.

The government is under criticism from banks and economists for the budget deficit. The shortfall of revenue against expenditure reached 57 per cent last year. This year's deficit is set at 44 per cent but there are fears it may be bigger.

Some economists fear this could cause an inflationary surge leading to increased pay demands and a destabilisation of the Lebanese pound. Mr Siniora gave no indication of any new taxes he might be considering. *Reuter, Beit Mery, Lebanon.*

Banker issues call to reward long-termism in money markets

Banks need to look at how they reward high-flying dealers in order to help avoid some of the derivatives mishaps that have plagued them in recent months, a leading banking industry expert said yesterday.

Mr Charles Taylor, executive director of the Group of Thirty think-tank, said firms could delay bonus payments to traders making short-term profit while taking longer-term risks. "There's a need for public policy decisions to limit the time scale of compensation," he said after a recent meeting of the Centre for the Study of Financial Innovation.

Derivatives traders who take bets on financial markets with their firm's money are among the highest paid dealers in the banking world. The instruments they trade are often complicated and involve sophisticated mathematical models.

The traders' pay is closely tied to how much money they make for their firm. But after the collapse of British investment bank Barings in February, and several less spectacular derivatives scandals, the issue of how much these dealers make and how much of their firm's money they control has been a hotly debated topic.

Mr Taylor said banks could lead the way in overall risk management procedures. He said the market should embrace new proposals from the Basle Committee on Banking Supervision which allow them to use their own risk measurement models to measure how much capital they need to set aside against market risk. *Reuter, London*

Protests force Ghana to shelve unpopular value added tax

Ghana has suspended an unpopular new sales tax following demonstrations including one in the capital during which five people died, Mr Kwesi Botchwey, finance minister, told parliament that the 17.5 per cent value added tax, introduced in April, would be suspended and replaced with the former sales tax pending completion of a review.

"Matters have reached a point where it is increasingly becoming difficult to enforce the VAT law because staff from the VAT secretariat are met with hostility wherever they go," he said.

Ghana has endured more than a decade of IMF and World Bank belt-tightening but civil servants and other workers say they have little to show for their sacrifices. *Reuter, Accra*

Half bank branches 'face closure by end of decade'

By Nicholas Denton

New technology and deregulation will halve the numher of bank hranches within the decade in the most quickly changing financial services markets such as the US and UK, according to Deloitte Touche Tohmatsu International, the accountants.

The report echoes recent forecasts about the transformation of banking by computer company executives such as Mr Bill Gates, chairman of software company Microsoft, and Mr John Reed, chairman of Citicorp, the US bank.

The report says the spread of telephone banking, automated teller machines and other new channels would jeopardise 9,000 hranches at a cost of 50,000 jobs. The four main UK clearing banks have cut 59,000 posts since 1990.

Its calculations back predictions of a further 75,000 joh losses in the UK by Sir Brian Pitman, chief executive of Lloyds Bank.

In the US, only 25 per cent of transactions will be handled through branches in 2000, compared with more than 40 per cent in 1993, according to the report. The process in continental Europe would be more "ordered and stately".

Barclays Bank and National Westminster Bank, the two largest UK banks, said it was impossihle to generalise and predict branch numbers so far in the future. Barclays said it planned to cut fewer than six of its 2,064 branches in 1995.

Efforts to introduce computers into personal financial management also received a setback with Microsoft's withdrawal of its bid for Intuit, a US software company.

But the report points to the low cost of telephone banking: 40 per cent of the cost of a traditional branch service. Generational change will also transform average banking habits: half of the users of telephone banking are between the ages of 18 and 34.

Other recent developments support the report: First Chicago Bank in the US recently tried to introduce a $3 charge for face-to-face contact in branches; National Westminster Bank is preparing for the trial of its Mondex electronic money in Swindon in the UK; and Direct Line, the UK insurer which deals with customers over the telephone, has won a licence to offer bank accounts.

The report says existing banks could survive the onslaught if they divided themselves into three types of husiness: those which developed relationships with customers, such as Marks & Spencer, the UK food, clothes and financial services retailer; specialists in a single product, such as Countrywide Pasadena, a US mortgage company; and providers of services, such as EDS, the computer consulting arm of General Motors.

It warns that banks which hide within the supposed safety of protective barriers face daunting challenges.

Ivory Coast close to deal on export reform

By Krishna Guha

The Ivory Coast yesterday said it was close to agreement with the International Monetary Fund over reforms to its much-criticised state cocoa and coffee export board, which would meet demands for greater transparency but fall short of total deregulation of the market.

Mr Daniel Kahlan Duncan, the prime minister, said the proposed deal would leave the Caisse de Stabilisation (Caistab), which sets producer prices and monopolises exports, fundamentally unaltered in return for open export contract bidding and private management of producer payments. He said he believed the proposal would be accepted by the IMF at a meeting later this month.

In an interview with the Financial Times, Mr Duncan said the proposed reform was part of a programme of adjustment which began with the devaluation of the CFA franc in 1994. "We have privatisation, we also have a new investment code in Côte d'Ivoire, and a new labour code which is liberal and very interesting for investors. And we also have some reform of Caistab."

Donors, including the US and the World Bank, have criticised Caistab for removing incentives to increase production when prices rise on the world market. They claim Caistah exploita the large gap between buoyant world prices and fixed producer fees as a government revenue fund, rather than passing on the increase to farmers.

The proposed deal:

■ Maintains the system of fixed payments to coffee and cocoa producers, but transfers management to the private sector.

■ Creates an open computer-based bidding system for export contracts, previously awarded by Caistab.

■ Retains limits on coffee production in spite of rising world prices, subject to further studies.

■ Replaces an existing export tax with an ad valorem levy.

Mr Duncan defendad the decision not to liberalise the sector further. "[The World Bank] would like to have different prices all over the country," he said. "But you need to have a similar price, otherwise production concentrates near the ports and we have environmental problems."

Mr Duncan said that in order to reduce its vulnerability to fluctuations in cocoa and coffee prices, the Ivory Coast aimed to further diversify its agricultural production and encourage investors, including those new to the francophone zone, in a range of mining and industrial sectors.

Privatisation would continue, with a further 15 enterprises for sale this year, set to raise CFA Fr30bn (£38.11m).

However, Mr Duncan attacked the lack of reciprocal moves to open developed economies. "What we expect is that liberalisation has to go through the developed world. They are telling you, you have to liberalise your economy, hut they put harriers in their economies. That is the real problem."

PM hardens stance on EU currency

By Kevin Brown, Robert Peston and Michael Cassell

Mr John Major, the prime minister, yesterday delighted the Eurosceptic wing of the Conservative party by making his most pessimistic statement yet on whether it would ever be in the UK's interest to accept European monetary union and join a single currency.

Amid increasing turmoil over the government's approach to the EU, Mr Major said that "arguably the circumstances may not ever be right" for sterling to be merged in a single European currency.

Eurosceptics were convinced that Mr Major also made a firm commitment that sterling would stay outside a single currency not only within the lifetime of this parliament – the current commitment – but also during the next parliament. However, Mr Major's aides issued a strong denial last night that there had been any policy change.

In a stark warning to Mr Major of the dangers facing the government, Lord Howe, the former deputy prime minister, said that further concessions to the Eurosceptics would split the Tory party and make the government look ridiculous.

Lord Howe's warning came at the launch of a report on the case for UK participation in a single currency by an influential committee headed by Lord Kingsdown, who as Robin Leigh-Pemberton was governor of the Bank of England.

The report, compiled for the non-party Action Centre for Europe, suggests monetary union would be a "leap in the dark," and warns that it could go wrong if member states were unwilling or unable to abide by limits on deficit financing. However, it concludes that the UK would enjoy lower interest rates and inflation inside a monetary union, and warns that member states that remain aloof risk being marginalised.

The report says that pressing ahead with monetary union involves "a fundamental step towards a closer union," but rejects Eurosceptic claims that it would lead to a federal Europe.

The report enraged Eurosceptics, partly because three pro-European cabinet ministers are patrons of ACE. They include Mr Kenneth Clarke, the chancellor of the exchequer.

Rightwing MPs dismissed it as biased. Mr Norman Lamont, a former chancellor dismissed by Mr Major, said the authors were "playing with fire". He said there was "no economic justification for taking such huge risks; it is only being done for political reasons."

In a further reflection of the divisions facing the government, Mr Lamont declined several opportunities during a BBC radio interview to deny that he may mount a leadership challenge to Mr Major in the autumn.

Monetary union in the EU might threaten the role of the City of London as a world financial centre, the Institute of Directors said yesterday, our Business Correspondent writes. The City's role in global markets has been established mainly because of favourable regulatory and taxation conditions, it explained. Those could be jeopardised if monetary union, followed by fiscal and political union, led to a more restrictive regulatory regime.

Inward investment in the UK could also be undermined, the IoD claimed, because monetary union would see the high non-wage labour costs prevalent elsewhere in Europe imposed upon UK business.

The institute said a single currency could actually threaten the survival of the EU single market, given a loss of domestic monetary policy among member states, which would leave them unable to adjust to economic shocks specific to their own countries.

Senior Tory warns against Emu delay

By David Buchan in Paris

Conservatives could damage themselves and the country if their party's manifesto for the next general election says it would refuse to accept European monetary union in 1999, Lord Howe warned yesterday in a speech at the French National Assembly.

The former foreign secretary and deputy prime minister in the Thatcher administration noted that the present British government had already pledged to stay out of any monetary union formed in 1997, the earliest date possible under the Maastricht treaty. But he warned that attempts by Tory Eurosceptics to stay out of Emu in 1999 would amount to saying that the UK never wanted to join.

"The costs to Britain of conceding this ground to Eurosceptics would be severe – in terms of higher interest rates, higher inflation, a depreciating pound and diminishing economic influence," he said.

However, Lord Howe alao appealed to France to help prevent Germany foisting a federalist agenda on the European Union at next year's intergovernmental conference. Mr Jacques Chirac, France's new Gaullist president, was "a potential equal to Chancellor Kohl", Lord Howe said, "as the only western leader with a clear majority in his parliament and certain to remain in office until the next century".

He added: "France takes a sensible middle course between Germany and Britain, wanting more Europe in key areas, but in a form which escapes the constraints of a perfectly federal form."

Lord Howe aligned himself with the French view on the need to strengthen the power of the big states within the Council of Ministers. "A Europe in which Paris, Bonn and London define common goals and common strategies, in which each of these countries retains the right to say 'no' on vital issues affecting them, is more likely to succeed in the long term than an ever-widening EU."

Factory output rise is reversed

By our Economics Staff

Uncertainty about the outlook for UK interest rates increased yesterday as figures showing an unexpected fall in factory production coincided with others suggesting that retailers were managing to push up their prices more quickly.

The Central Statistical Office said manufacturers had cut production by 0.2 per cent in April, confounding expectations among City economists of a third successive monthly rise in factory output.

The figures bolstered the conviction of City economists that Mr Kenneth Clarke, the chancellor of the exchequer, would have rebuffed any request from the governor of the Bank of England (the UK central bank) for a rise in interest rates when they met on Wednesday.

But April's fall in output was explained entirely by a drop of nearly 8 per cent in the production of the coke, oil refining and nuclear fuel sector. This was the result of maintenance work at Texaco and Gulf refineries.

Official factory production figures remain more downbeat than surveys of manufacturers hy the Confederation of British Industry. Disparities between the soundings of official statisticians and those of the CBI are also evideot in retailing, with yesterday's distribntive trades survey painting a slightly more bnoyant picture than official data.

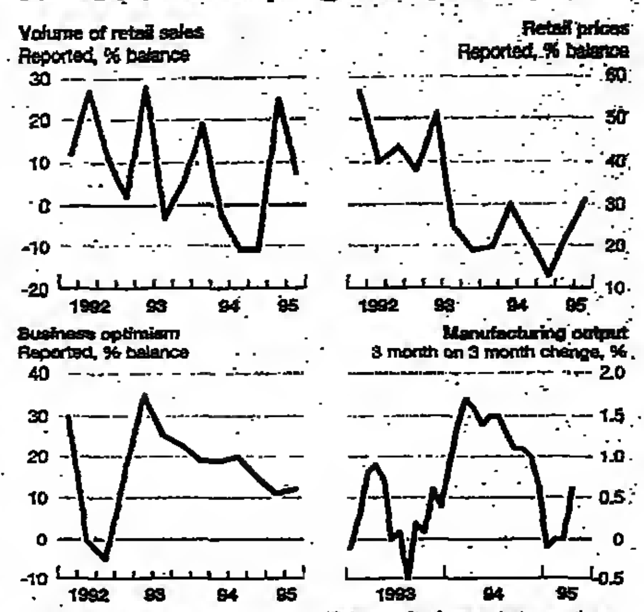
Three times as many retailers said they had raised their prices over the past 12 months as said they had reduced them, the strongest reported increase for two years. A four-to-one majority expects prices to be up rather than down in June.

This news exacerbated an already jittery mood in the sterling futures market, in which traders bet on future moves in interest rates.

Mr Tony Norfield, UK economist at Dutch bank ABN Amro, said: "There is a feeling that the markets might have got a bit overheated last Friday – it is still a possibility that there will be a UK interest rate increase and it seems less likely now that the Fed will cut rates."

The CBI survey also showed 46 per cent of retailers reporting higher sales last month than a year earlier, while 33 per cent said sales were down. This was weaker than in April, when trade was boosted by Easter, but otherwiae the strongest figure this year. Official figures have shown retail sales hroadly flat in recent months. Yesterday's figures did little to resolve the debate about the severity and longevity of any slowdown in UK economic growth.

Prices rise as output growth picks up



Source: CBI, Datastream

*Balance = % of respondents reporting an increase minus those reporting a decrease

MPs refuse to hand papers to judge

By James Blitz at Westminster

MAXWELL TRIAL

MPa yesterday decided not to disclose to the courts a series of confidential papers relating to the collapse of Robert Maxwell's business empire and collected by a committee of the House of Commons. The House agreed that evidence collected hy its social security committee would not be passed to Mr Justice Phillips, the judge at the trial. A motion calling for the records – which include transcripts and confidential memoranda – to be passed on was proposed hy Mr Robert Jackson, Mr Kevin Maxwell's MP.

Mr Jackson said be had brought the motion because it was a matter the house needed to decide on. He said the house would have to weigh up the balance between the entitlement of the individual to a fair trial and the privilege of parliament as supreme, and not having to answer to the courts.

Several MPs voiced concern that a decision to hand on the information would infringe parliamentary privilege and could inhibit witnesses from giving confidential evidence to committees in future.

One of the strongest calls for the house not to pass on the information came from Mr Frank Field, the Labour chairman of the social security committee. He told the bouse that virtually all the evidence taken by the committee in confidence in 1992 and 1993 had heen related to the "recovery of funds" and bow that activity was proceeding. "If I could be certain of my memory I would say that we discussed no other issues at all other than those," he said.

Sir Nicholas Lyell, the attorney-general, was careful not to guide the house either for or against passing on the evidence. But be warned that, while parliament had never faced an issue of this kind before, there was a possibility that similar issues would come before it.

He recommended that, in future, the house should institute a procedure whereby evidence should be passed to the trial judge, who would advise the Commons of whether he considered it relevant to the case. "Control of the decision would at all stages remain with the house," he said.

A lawyer for Mr Kevin Maxwell said afterwards that the attempt to get the documents was not intended to undermine parliamentary procedure. But the material could be relevant to Mr Maxwell's defence, and the Serious Fraud Office supported their attempts to see it.

The former administrator of tbe Maxwell pension fnnds was lied to over the collapse of Robert Maxwell's hnsiness empire, a London jury heard yesterday, our Law Courts Correspondent writes. Mr Trevor Cook, a former administrator of Bishopsgate Investment Managemeot, said be did not know he had been lied to wben trying to find missing assets.

He later realised that lies had been told, he explained to Mr Alun Jones, a lawyer for Mr Kevin Maxwell. Mr Cook was being questioned over his search for shares the prosecntion claims were misnsed by Mr Kevin Maxwell, and three others accnsed of frand. After Rohert Maxwell died, Mr Kevin Maxwell told him the share certificates were with Teva's Israeli lawyers, but the firm denied this, he said. "Did yon confront Kevin Maxwell that he had lied to yon?" Mr Jones asked. Mr Cook replied: "I did not know he had lied. At that stage I did not know if it had been a misunderstanding. With hindsight I can see when lies were told to me."

Digital widens search for clients

By Paul Cheeseright in Birmingham and Paul Taylor in London

Digital Equipment, the US computer group, yesterday signalled the start of a new contest between international compnter groups to win clients among manufacturing companies when it opened a manufacturing and business technology centre in Birmingham, the second-largest city in England.

The centre, the first of three in Europe, will provide business customers with information technology systems and "solntions" based not only on Digital's computers, but also using the hardware, software and expertise of other companies.

Tha idea is that a business will he able to discuss its information technology needs with staff who will propose a comprehensive plan of action.

The opening of the Birmingham centre reflects Digital's decision to concentrate on specific parts nf the computer market. Apart from manufacturing – for which it will also have centres in Munich and Milan – it intends to concentrate nn financial services through a centre in London, and nn telecommunications through a centre in Valbonne, France.

Mr Chris Conway, Digital's general manager, accnunts business unit in Europe, said: "We're not going to play the waterfront." This approach to compnter and systems sales emerged from restructuring begun a year ago under Mr Rnbert Palmer, Digital's president and chief executive, whn took nver three years ago.

Digital has been struggling to come to terms with declining sales of its traditional minicompnter products and an indnstry-wide trend towards lnwer profit margins.

It has recorded losses of more than $3bn over the past three years in spite of substantial cost-cutting. Since then Digital's performance has significantly improved, marked by a return tn profitability.

Big accountancy firms offer little more than a tantalising glimpse of themselves

Auditors coy about own figures

By Jim Kelly, Accountancy Correspondent

The Big Six accountancy firms are supremely skilled at auditing the annual results of Britain's biggest companies, helping in the process to produce accounts that are both reliable and easily comparable. Why, then, do they find it so difficult each year to produce their own?

The annual fee income table for the Big Six, published earlier this week and incorporated in the table shown here, contains a tantalising glimpse inside a group of businesses which, between them, generated fee income totalling £2.76bn ($4.33bn) in 1994-95, a more than 6 per cent increase on last year's total of £2.59bn.

But it is just a glimpse. Yet again the comparability of the figures is undermined by the complex nature of the firms themselves, and by a lack of co-ordination in producing the figures.

The firms themselves will point out that as partnerships they are not required to produce the data. Moreover, why should they divulge sensitive commercial information in a highly competitive market? This is a fair point, although it hardly sits well with the Big Six's position in providing a crucial public service – auditing the vast majority of the FT-SE 100 companies.

This year's spanner in the works was the accounting for earnings from work outside Britain. Price Waterhouse's slightly disappointing results were offset by the news that it did not include the earnings of staff seconded outside Britain, a market into which it is diverting resources. "In this way we are looking to increase the quality of our fee income rather than just its volume," says PW's managing partner Mr John Barnham.

PW accounts for such work by assigning the fee income to the country where the work is signed-off. The only benefit to come to the UK figures are the chargeable hours of those UK partners and staff who travel out to the assignment. This obviously reduces PW's fee total, but bolsters that of its non-UK divisions.

In KPMG's case, fee income earned outside Britain would come back to the UK where the work was done by UK staff. The money staying in the country in which the work was done would be that earned by local staff.

KPMG pointed to three assignments outside Britain in announcing its management consultancy figures. They were with Mercedes Benz Finance, Europcar and the Hong Kong government.

These accounting differences essentially put a large hole in several of the buckets we are trying to compare – which ones is less certain. Coopers & Lybrand, for example, has a fee policy which appears to lie towards the KPMG end of the spectrum.

In an increasingly global market this kind of inconsistency is potentially damaging, especially when the firms are still relatively close together in fee income terms.

What, if anything, does the table published earlier this week tell us? Overwhelmingly it tells us that Andersen – comprising Arthur Andersen and Andersen Consulting – is a very different beast from its rivals, most of whom it has overtaken since opening in the UK in 1956.

One set of figures illustrates Andersen's unique position in the market in providing a different mix of services: providing some large-scale outsourcing services from a relatively small audit base.

The ratio of fees to the number of partners ranges, for five of the Big Six, from £922,000 for KPMG to £1.04m for Ernst & Young, while Andersen records £1.39m.

> Growth in income from tax work promises to help future earnings for the Big Six firms

Andersen's rise apart, this year's figures illustrate some other broad trends. Insolvency income has fallen in the recovery, although not consistently. Touche Ross, a past master in hig corporate insolvency, showed a drop in insolvency income of 19 per cent. Ernst & Young dropped 16.1 per cent in insolvency and corporate recovery.

The growth in income from tax promises to help bolster future earnings for all the Big Six. Coopers saw a very healthy 10 per cent rise, Ernst & Young 3.4 per cent, Andersen 9.3 per cent, Touche 5.7 per cent and KPMG 1.5 per cent. Why this income continues to rise is a difficult conundrum to solve.

Mr John Whiting, the new head of tax at Price Waterhouse, which also saw a rise of 0.9 per cent, believes the increasing complexity of government legislation is one cause of growth in this sector.

But he has also detected an increasing interest among leading managers in post-tax profits. This is because tax treatment has become more variable, and more open to being actively managed, in what has become a more international market.

The days of the pre-tax profit being the fixed target for many businesses are fading. Tax can now be seen as a cost which can, and should, be managed.

Two other factors have also played a part. A growing number of large businesses, such as the privatised water, gas and electricity companies, have had to take an active detailed interest in tax for the first time. And the increasingly shrewd tactics of the Inland Revenue in focusing resources on clawing back tax on a risk reward basis has concentrated the minds of those running larger companies.

Then there is management consultancy. Andersen's figures include £284m from its Andersen Consulting firm – a 12.4 per cent increase representing 52.6 per cent of the entire business. Touche Ross notched up growth of 23.5 per cent in management consultancy, and a total increase in professional staff of 14.4 per cent.

The figures do little to shed light on how firms are fashioning their businesses. The future diversification of the Big Six will depend on how far they are prepared to strike out from their traditional core services.

Ernst & Young, for example, seems likely to concentrate on integrating essential client services to provide added value, while Andersen is clearly set to extend its business, as well as expanding it. Despite all this information, it is still difficult to know who is making a profit.

Fee income of big accountancy firms 1994/95

Rank 94/95	Rank 93/94	Firm	1994/95 (£m)	Change on 93/94 %	Audit (%)	Tax (%)	Mngt. Consultancy (%)	Insolvency (%)	Partners	Professional staff	Prof staff/ partner ratio	Fees/ partner ratio (£000)	Fees/total prof staff ratio ('000)	Number of UK offices	Yr ending
1	(1)	Coopers & Lybrand	575.0	+2.7	44.0	23.1	23.6	9.2	607	6,266	10.3	947.3	83.6	36	29/4/95
2	(3)	Andersen	539.5	+8.0	23.7	18.1	52.6	5.6	386	4,873	12.5	1396.9	102.5	12	31/8/95
3	(2)	KPMG	528.4	+8.2	42.3	20.9	18.2	7.9	573	5,998	10.5	922.2	80.4	38	31/3/95
4	(4)	Ernst & Young	401.2	+3.3	39.4	30.1	22.1	8.4	386	4,376	11.3	1039.4	84.2	27	31/3/95
5	(5)	Price Waterhouse	383.2	-0.4	42.6	28.3	22.0	7.1	399	3,836	8.6	960.4	90.5	26	31/3/95
6	(6)	Touche Ross	336.8	+1.2	36.1	23.9	25.5	9.5	345	4,303	12.5	977.7	72.5	22	15/4/95
7	(7)	Grant Thornton	114.0	+6.5	36.8	29.5	4.5	19.3	213	1,515	7.1	535.2	55.9	45	31/3/95
8	(10)	Stoy Hayward	95.7	+22.7	51.9	21.0	11.4	15.7	229	1,391	6.1	417.9	59.1	34	31/3/95
9	(8)	Pannell Kerr Forster	80.1	+0.5	38.7	22.8	12.8	12.2	169	1,272	7.5	474.0	55.6	35	30/4/95
10	(12)	Clark Whitehill	57.5	+7.3	63.1	27.6	2.1	1.9	231	1,135	4.9	248.9	42.1	88	31/3/95
11	(11)	Kidsons Impey	54.1	-2.8	52.4	27.8	7.9	11.9	142	804	5.7	381.0	57.2	33	30/4/95
12	(13)	Moore Stephens	44.6	+1.6	39.7	24.4	18.2	7.2	143	750	5.2	311.9	49.8	50	31/12/94
13	(14)	Robson Rhodes	40.6	+10.9	29.6	23.1	8.6	18.7	70	445	6.4	580.0	78.8	9	30/4/95
14	(15)	Neville Russell	33.6	+1.2	61.6	24.4	3.3	10.7	87	493	5.7	386.2	57.9	18	31/12/94
15	(16)	Moores Rowland	31.4	+1.7	50.8	28.4	12.4	6.1	94	386	4.1	334.3	65.5	18	30/4/95

Figures are not comparable because of different accounting methods used by different firms

The second tier of UK accountancy firms kept pace with the Big Six in 1994-95, according to fee income results published yesterday. Total fee income from the top 30 firms in 1994-95 was £3.53bn, up 3.8 per cent on the previous year, with the Big Six taking 78 per cent of the earnings. Last year the Big Six took 76 per cent – but this year their fees were bolstered by the merger of a large part of Binder Hamlyn with Arthur Andersen. This removed a major second tier player, with annual fee income of more than £100m, and distributed the majority of its income into the Big Six sector.

More than 20 of the firms below the Big Six managed to record growth in fee earnings in 1994-95 – in sharp contrast to last year when half of the top 30 reported declines.

Mr Victor Clements, senior partner at Moores Rowland, said: "The 1994-95 growth rates for both the Big Six and Group A firms do not indicate that the mid-tier firms are losing ground on the bigger competitors – but the threat is very real."

UK NEWS DIGEST

Ireland party shifts over IRA weapons

British efforts to resolve the deadlock over weapons held by the Irish Republican Army received an unexpected boost when Fianna Fail, the Republic of Ireland's main opposition party, urged paramilitary organisations to start taking their weapons out of circulation.

In the wake of President Bill Clinton's call to the paramilitaries to make progress on the arms issue, Mr Jim McDaid, Fianna Fail's spokesman for Northern Ireland, urged the IRA to make a "substantial gesture" on decommissioning. That is the phrase often used by Sir Patrick Mayhew, chief Northern Ireland minister in the British government.

Taken together with recent comments by Mr Bertie Ahern, the Fianna Fail leader, Mr McDaid's statement to the Irish parliament represents a policy shift. The comments will help to bolster the position of the government of the Irish Republic. Fianna Fail had earlier criticised Mr John Bruton, prime minister of the republic, for being a "bystander" to the peace process. *John Murray Brown, Dublin*

German court approves more Leeson charges

THE BARINGS COLLAPSE

A German court has approved 11 additional charges against Mr Nick Leeson in its processing of a formal extradition request from Singapore for the former Barings Bank trader. Mr Leeson has been held in detention since early May after a Frankfurt court approved one of the 12 allegations in Singapore's request as being sufficient for extradition.

Mr Leeson, blamed for the failed Japanese stock futures trading that led to the collapse of Barings, the British merchant bank, in February, has said he will seek to block extradition to Singapore where he worked. He has been hoping for a rival extradition bid from Britain, but authorities in London have so far not filed a request with Germany, Mr Hans-Hermann Eckert, the Frankfurt prosecutor, said a final ruling on the legal validity of Singapore's request was expected in three to four weeks. *Reuter, Frankfurt*

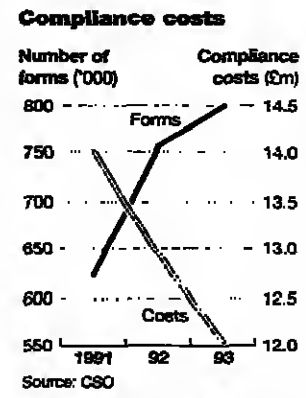
American Express enters mobiles market

American Express, the US-based charge and credit card company, is broadening its horizons with a move into the fast-growing UK mobile phone market. Yesterday it announced agreements with Motorola, the largest cellular phone manufacturer, and Cellnet, the UK's second largest cellular operator, to become a telecoms service provider. It is the first financial services company to become a service provider – essentially a distributor of mobile phones and services – in the UK.

American Express sees the development as a pilot which may be extended to mainland Europe and beyond. It will market the scheme to its own cardholders and offer only digital (GSM) phones which can be used across Europe. *Alan Cane, Industrial Staff*

Companies face $19m cost of bureaucracy

Compliance costs



British companies spend about £12m ($18.8m) a year filling in forms for the government, according to the Central Statistical Office. Almost 800,000 forms are dispatched to companies each year. The forms, some mandatory and some voluntary, are used to provide data for a range of statistics including gross domestic product figures, trade figures, investment, stock building and output. In recent years the scale of the burden of form filling has provoked some criticism and in the 1980s the statistical base was sharply reduced. However, these cuts severely eroded the quality of the statistics and the CSO has since sought to increase the statistical base slightly, with the number of forms rising by almost 200,000 between 1991 and 1993. *Gillian Tett, Economics Staff*

Painting sells for $5m: A painting of a tiger by George Stubbs fetched a record £3.2m ($5m) for the artist's work when it was sold at Christie's in London. Described as "the most important British picture on the market for 10 years," it is an almost lifesize portrait of a tiger presented by Lord Clive, governor of Bengal, to the 4th Duke of Marlborough in the early 1760s. The highest previous price for a Stubbs, better known for his paintings of horses, was £1.3m in 1987.

Robbers turn to potatoes: Police warned farmers and wholesalers to lock up their bags of potatoes because of a sudden spate of thefts. Bad weather has helped to push up prices and police in the county of Norfolk said: "Potatoes are now a target for thieves as prices escalate."

Tea thieves: Police found thousands of boxes of fake Tetley brand teabags in a Scottish field after many shopkeepers were found to be unwittingly selling the bags. Investigators believe printers of the packaging for the fake teabags, said to contain "low quality tea", took fright after the racket was publicised in Scottish newspapers.

MANAGEMENT

Sports entrepreneur and author Mark McCormack refuses to take things easy. **Tim Dickson** reports

The Mark of distinction

Two weeks in Paris to take in the French tennis championships. A brief hop across the English Channel to attend a Hampton Court concert organised by his IMG group. Quickly on to South Africa for the final stages of the rugby world cup, before returning to Britain for Wimbledon fortnight and the Open golf at St Andrews.

Mark McCormack, 64, is not flaunting his summer itinerary, merely answering a question about whether he ever feels the urge to ease up. "Many people retire to do the sort of things I do every day," he says candidly. "What's my dream life to do other than that?"

Combining work with pleasure to groove your golf swing alongside celebrities like Nick Faldo, or your groundstrokes with Pete Sampras, is one thing; churning out the sort of management books which jostle for space at airport bookstalls quite another.

McCormack the author may not have quite the ring of authenticity as McCormack the sports entrepreneur, but judging by the launch of two new books next week he is not about to abandon a writing career which already boasts international bestsellers such as *What They Don't Teach You at Harvard Business School*, *The Terrible Truth About Lawyers*, and *Hit The Ground Running*.

McCormack on Negotiating and *McCormack on Selling** – the first two in a new series – are very much in the "Harvard" genre, using often folksy examples from his personal experience of building a marketing empire over the last 35 years.

As one might expect they are packed with checklists, golden rules and direct, no-nonsense advice on things like "How to win a 'shoot-out'", "How to say yes, no, or maybe and mean it" and "Putting some heat into your cold calls".

The Mark McCormack story is extraordinary even if you ignore the hype which has been written about him – "dean of sports marketing", "most powerful man in sports", one of the Times newspaper's 1,000 makers of the 20th century – and which is impressively documented in the background briefing given to would be interviewers.

Born and raised in Chicago where he started work as a lawyer, his first full-time athlete client was the golf professional Arnold Palmer. In quick succession he also signed Jack Nicklaus and Gary Player – with Palmer the famed big three of the early 1960s and golfers who quickly started winning everything in sight.

"I certainly got there at the right time", McCormack observes in a reference to the dawning television age, "but I think I also had the talent to take the circumstances I found and make the best of them.

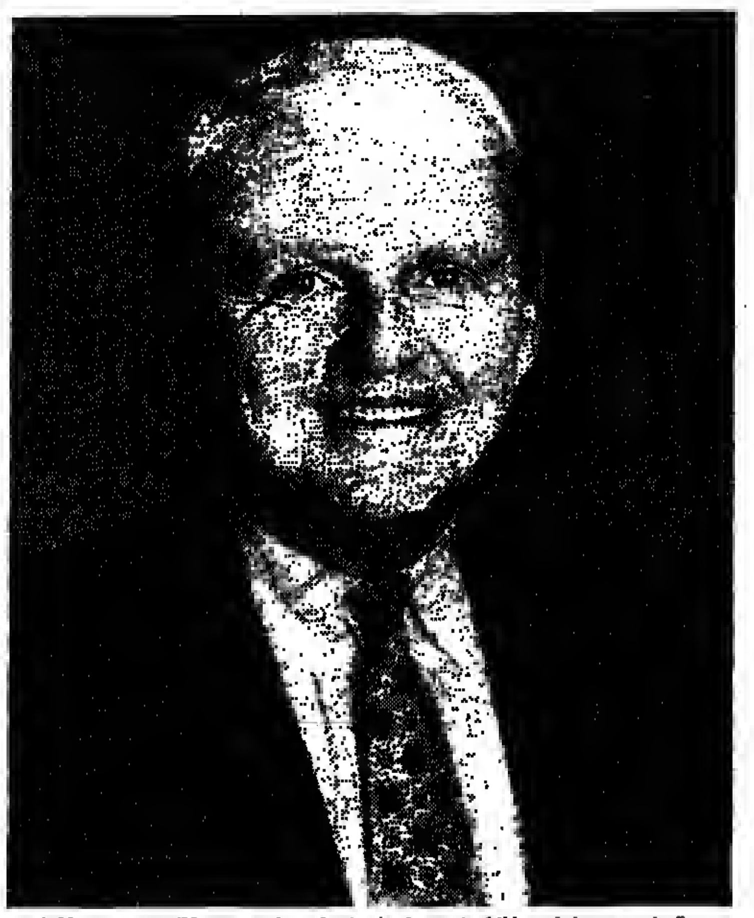
"After all, when I signed them Nicklaus was still an amateur, Player had only performed in America once, and Arnold had only won one major championship. As Gary Player once said 'the harder I practice the luckier I seem to get'. I work hard too."

No one would deny that hard work has played a significant part in the transformation of a one-office, one-client concern into the International Management Group of today: the world's largest athlete representation firm, the biggest independent source of televised sport, a literary agency and lecture bureau, three international modelling agencies, an agency representing classical musicians (it organised Kiri te Kanawa's 50th birthday party at the Royal Albert Hall last year), and a financial planning firm, between them employing more than 4,000 people worldwide.

Munching burnt toast at a working breakfast in his elegant mews home in central London, McCormack admits that the idea for the latest book series was not primarily his own. Inspiration for the previous publications also came from others who felt the combination of his own experience and his colourful contacts would make for a good read.

"The greater part of success in business negotiation and selling is understanding human dynamics, understanding people," he suggests. He draws a parallel between the housewife and the TV repair man. "How do you get that extra effort from the TV repair man? You express an interest in him, ask him about his family, about his life. You don't just tell him to come in and fix it. I think the same thing applies in business, but people very often don't recognise it."

McCormack sees sensitivity to different national "characteristics" – ranging from the "abrupt frontal" to the "very laid back" – as a key ingredient of successful negotiation. "When I first started the idea of having a breakfast meeting was something that never occurred to anybody." He chuckles as he recounts the reply of a former Wimbledon chairman, Sir Brian



Mark McCormack: "Many people retire to do the sort of things I do every day"

Burnett, to a request from one of *America's leading* television networks for such a get together. "He said breakfast was something he shared in bed with Lady Burnett, it was not an experience he wished to share with NBC."

McCormack, on his own admission, *is obsessed by punctuality and* suggests it is a way of showing contacts you are dependable.

"If you are going to check your diary to see whether you can come to Wimbledon and I say I will call you at 3pm, it sends a message if I call you at exactly 3pm rather than 3.15pm or 3.20pm. If you do three or four things like that the person is going to say, Gee, he says he can do something and he does it ... there's *a nice feeling about that.*"

McCormack also gets animated on the subject of secretaries, who he says can also communicate warm feelings to valued business contacts. "Very often the boss doesn't even know what the secretary is saying, or *how she is with other people*," he says scornfully. "It is a very interesting dynamic to deal with." Secretaries should know "who can be given your home number and who you can be pulled out of a meeting for. To the unsuspecting person 'the *diary's full' sends a lot of* messages. You and I know that nobody's diary is ever full."

McCormack has been described as manipulative, exploitative, and exercising an unhealthy stranglehold on international sport. He admits that he "might drive a hard bargain" but insists he is always as good as his word. "I have a lot of trouble dealing with people who say they're going to do something, you act on it, and then it turns out they don't do it.

"A lot of times you feel you're being used as a stalking horse, they want you in the arena so somebody will pay more."

Of the people he admires – among them Tony O'Reilly ("very, very bright and very charming") and Lew Wasserman, chairman of MCA – Wasserman taught him "tons and tons of lessons", including the importance of integrity.

"I'll never forget an incident over a Californian golf show which Ford had bought, and which MCA's production people decided to stage in Los Angeles rather than Pebble Beach to save money on things like travel and overtime. Ford went nuts and Wasserman said to his people had they ever said or implied during the negotiations that it would be at Pebble Beach. When they said they had, Wasserman agreed to do it at Pebble Beach. It's very refreshing to see that kind of thing in the modern day."

McCormack also likes the stories of Wasserman going round his offices at night and throwing everything on people's desks into waste paper baskets – "the theory being that if it wasn't important enough to deal with when it came in, it wasn't important".

Palmer, he recalls, once forcefully reminded him that judg*ments are made "by things* such as what you wear, how you order, and how you treat people in a restaurant. I had been obnoxious to a stupid and arrogant guy at a beach club in Santa Monica. Arnold said to me afterwards: 'You have to *understand* that when you're with me anything you say is a reflection on me. I don't treat guys like that'."

The loyalty he shows his own employees is invariably commented upon by those who have worked *most closely with McCormack. It is* illustrated by the average 25-year tenure of his 18-19 most senior executives – a remarkable record given the *poaching* to which IMG's business is routinely prone.

"The single most significant man*agerial thing I have accomplished* in my life is that I have surrounded myself with a lot of people who have a lot of belief that I will be loyal to them, and treat them fairly," he says.

McCormack on people might be *another title for the forthcoming* series.

**Century Business Books. £9.99 each.*

Freedom to start again

Whatever happened to Ross Johnson? **Bernard Simon** reports

Top executives who lose their jobs usually land with a bundle of cash to soften the blow. Many start again, looking for small, often struggling businesses that can benefit from their expertise and business contacts.

Most people last heard of Ross Johnson seven years ago when, as the flamboyant chief executive of RJR Nabisco, he launched the biggest takeover bid in history for the US tobacco and food group.

After a bruising battle, Johnson lost to Kravis Kohlberg & Roberts, the US leveraged buyout specialists. But he walked away with about $50m (£33m) and a pension of close to $1m a year.

Johnson, 63, sits on the boards of about half a dozen well-known companies, including American Express and Power Corporation of Canada. Much of his time is spent in Florida and the ski resort of Vail, Colorado. His drawl belies his roots in the Canadian prairie city of Winnipeg.

Johnson spends about half his time in Atlanta running his private investment company. In contrast to the days when his movements depended on the demands of 165,000 RJR Nabisco employees, he enjoys the freedom of deciding how to spend his time.

One of his investments is a 40 per cent stake shared with two friends in Bionaire, a Montreal-based maker of air filters and humidifiers, mainly for home use.

Bionaire was on the verge of collapse when Johnson made his investment three years ago. Since then, sales have grown from C$54.4m (£26m) in the year to end-February 1992, to about C$80m in 1994/95. The company has returned to profitability, although earnings were almost wiped out last year by a C$2.2m restructuring charge.

Johnson, who took over as chairman, has greatly strengthened the balance sheet. Long-term debt is now C$2.4m, a third of the level in 1992 and shareholders' equity has trebled to C$27m.

"It's fun taking a smaller company out of bankruptcy," Johnson says. The informal atmosphere at Bionaire's annual meeting in Toronto earlier this month, with polite questions from the handful of shareholders in attendance, was a sharp contrast to the often confrontational encounters typical of big US companies.

Johnson takes credit for the changes that have put Bionaire back on its feet. He installed a former RJR Nabisco executive for a time as Bionaire's chief executive. Bionaire has expanded its product line and its US distribu-

Ross Johnson: flamboyant

tion network. The US now contributes 60 per cent of sales, compared with less than a third three years ago. Johnson's medicine initially did wonders for shareholder values. Bionaire shares, almost worthless when he took over, reached C$3.70 last year.

But stiff competition in the environmental products business, and more recently, rising raw material costs and higher warranty provisions, have eroded margins. Bionaire is usually in the red in the wintry first quarter, but this year's loss was almost double last year. The share price has slid to C$1.90.

Johnson's time at RJR Nabisco is remembered for the perks he lavished on directors and senior management. He can no longer call on the 10-aircraft RJR Air Force. But life is far from tough.

Bionaire paid him $269,000 in salary and consulting fees for the 10 months to December 31 1994.

Johnson says he and his partners may sell their stake if they receive an attractive offer. But, with his RJR Nabisco nest egg to fall back on, he can afford to be patient. "We don't rise and fall (on Bionaire)," he says. "We're prepared to give it time."

ARTS

Audition for an identity

Nigel Andrews talks to the ever-surprising film director, Fred Schepisi

It could only happen in Movieland. The director of *Six Degrees Of Separation*, a brilliant play-based movie about a group of fast-talking godless New Yorkers, is directed by a slow-talking Australian who almost went into the priesthood.

Fred Schepisi is most unguessable of all the film-makers who surfed to fame on the Aussie New Wave 20 years ago. First he made two complete-opposite movies down under: the claustrophobic *The Devil's Playground* (God, sex and schoolboys) and the panoramic *The Chant Of Jimmy Blacksmith* (action, agitprop, Aborigines). Then he left home to bewilder North Atlantic critics by turning out a western (*Barbarosa*), a political drama (*Plenty*), a romantic comedy (*Roxanne*), a spy thriller (*The Russia House*) and a screwball farce (*IQ*).

Since *Six Degrees* is all these combined, Schepisi – pronounced like "sceptic" elided with "Pepsi" – may have found his perfect form. And perfect story. In the black youth who gatecrashes rich Manhattan homes to spin fantasies about his life, Schepisi sees an Everyman tale that chimes with his own life story. The kid, he says, is auditioning for an identity.

"Most people feel they're gonna be good at something, but never meet the people or circumstances that might bring that out. It happened to me. I never knew I'd be a film-maker till I met writers and people who challenged my ideas about art and cinema."

Like his near neighbour in the movie dictionaries, Martin Scorsese, Schepisi had wanted to be a priest. "I like to think I'm cured now," he says. But his obsession with authority and manipulation in his movies – from the seminary teachers in *Playground* to the tyrannies of high-society protocol in *Six Degrees* – may come from a continuing mental wrestling match with Catholicism. He admires its heart, but not its dogmas.

"I know there's got to be rule and order. But governments and secret services and church organisations become ends in themselves, no longer serving the purpose they were intended for. Individuality, and our tolerance of it, are terribly important." In *Six Degrees* he celebrates the characters' eccentricity with some of the most dazzling camera-movements ever seen in a filmed play. As in all Schepisi's best work, they are not just decorative, they define character.

"A lot of film-makers are full of visual bravado when it comes to action, but they can't carry it through into dialogue scenes. They fall back on conventional static coverage: close-up, alternate close-up, medium shot. I believe you should have the same style throughout the movie.

"In *Six Degrees* what's important is not the talk but the effect it has on other people: the undercurrents. Even John Guare, the writer, got into calling the dialogue 'wallpaper.' I decided on these panther-like camera moves so that you feel *anything* can happen.

"It pays off in the big phone conversation between the boy and Stockard Channing as the wife. From different viewpoints you keep looking at the texture and luxury, the 'haven' quality, of her apartment with those warm reds. Then you show the street where the kid is, its ugliness, its aggressiveness. In one shot I also had him 'lost' in a reflection of neon lights when he talks about art, so he looks like a painting."

For Schepisi, it is an Australian's heritage to be obsessed with light, colour and landscape: even those of a city. The sinister panache he put into filming the desert around Ayers Rock in *Cry In The Dark* – Meryl Streep as the dingo baby's mother – is at no great remove from the wide-screen bravura he brought to urban angst in *Plenty* or *The Russia House*.

"With most American directors lighting and composition don't matter. It's just, 'Let's make the actors visible and go in tight on them.'

"The Australian new cinema was never interested in following Hollywood. It was affected by European, Japanese, Indian cinema. We wanted to make our own individual, even nationalistic movies: to find out who we were, to celebrate our own 'land' in all senses.

"There wasn't any money when the New Wave started. The money came because of our first films. I paid for half *The Devil's Playground* myself. So it was an artist-led movement. The only thing the government did early on, almost by accident, was set up an Experimental Film Fund. The PM was sitting next to someone at a public rally and literally said, 'I need to announce something that doesn't cost much but will make a big news impact.' The guy next to him said, how about a film fund."

After that, history rode across the land in glorious Technicolor. With Peter Weir, Gillian Armstrong, George "Mad Max" Miller and the rest, Schepisi led the last major national movie *risorgimento* of the millennium.

Now success has meant diaspora and these directors are all over the globe, mostly in Hollywood. I venture the S-phrase. Have they – has Schepisi – "sold out"?

A tiny *freezing* in the voice. "I haven't gone Hollywood. I still chart my own course."

A tiny thawing in the voice. "What you try to do is entertain and at the same time hope you're saying something that gets heard. But if it keeps being heard by the same small group of people – who're probably already convinced of what you're saying – you're not really communicating as you could and should."

Schepisi: director of 'Six Degrees of Separation' who surfed to fame on the Australian New Wave

Theatre

Marilyn meets Einstein

For centuries, there have been historical fantasies in drama in which characters who never met in life do so onstage. Schiller brought Mary Queen of Scots and Elizabeth I together in *Mary Stuart*; in *Travesties*, Stoppard brought Lenin and Joyce and Tzara together. Terry Johnson, who in 1993 had Freud confront Dali in *Hysteria*, had in 1982 achieved some exceptionally resonant meetings in *Insignificance* (filmed in 1985), and it was one of the latter's most delicate jokes that its famous characters are never named and hardly need to be. Now Johnson has revived this 1982 play himself, adding several lines that finely improve it.

In one night in 1953, for different reasons, the Professor (Einstein) is visited in his hotel room by the Actress (Marilyn), the Senator (McCarthy) and the Ballplayer (DiMaggio). French farce meets political thriller meets historical fantasy meets multi-layered illustration of Einsteinian physics. At moments, it hardly concerns *this* piece, *this* time, *these* people: it occurs at the intersection of beauty and politics and science and body.

The beautiful conceits of this play include: that Marilyn is a bright girl so fascinated by Einstein and his theories that (a 1995 touch) she proposes to him; that McCarthy finally leaves the room (another new touch) saying to all three "To me you're all of no significance whatsoever": that Einstein is so shattered by the events of his life that he can turn Marilyn down by saying (yet another new touch) "People aren't something I wish to try again"; and that he, a German Jew, can say (an old touch) "We burnt children" with deep concern. Why say "We"? Because Einstein has learnt that no man is an island.

One beauty of watching *Insignificance* at the Donmar Warehouse is that the audience sits on three sides; and so, because we can never see all four characters face-on, we are all the more aware of how intensely relative to each other they are. Given the impossible task of enacting Marilyn, Frances Barber succeeds not by letter-perfect impersonation – though there are angles by which her resemblance is remarkable – but by producing an utterly organic characterisation: bubbly, intelligent, vulnerable, poignant. As the Senator, Ian Hogg is all immaculate details not yet fully connected. Jack Klaff plays the Ballplayer as a gentle giant.

The superlative performance is Alun Armstrong as the Professor. Motionless, he conveys powerful thought; in a frail voice and German accent, he communicates a lively spirit and a perturbed mind. This witty play, to which Johnson has added some fine new jokes, could probably be funnier yet; but Johnson, in his role as director, has concentrated on establishing its inner truthfulness. Absorbing to watch, and more so to recall.

Alastair Macaulay

Donmar Warehouse, WC2.

Recital

A tenor to watch

The time must be approaching when a certain Italian tenor puts away his white handkerchief for good and leaves the stage free for the next generation. It would be nice to think that the operatic class of the 1990s was full of young rivals vying for his position, but that is sadly far from the case. At the moment there is just one young tenor waiting in the wings.

His nama is Roberto Alagna and he nobly decided to spend his birthday in London on Wednesday, giving a solo recital at the Royal Opera House. (That in itself was a signal honour, as few singers get the orchestra to themselves for the evening.) Born in France of Sicilian parents, Alagna has a dual cultural heritage, which he works assiduously.

In London he has so far appeared in *La Bohème*, an Italian opera set in France, and *Roméo et Juliette*, a French opera set in Italy, so it was no surprise to find this recital programme straddling the Franco-Italian border.

Whether his voice travels on an Italian or French passport is a fascinating question. One might have expected that a musical upbringing in the French tradition would result in an elegant, delicately-nuanced, Gallic style of singing, but by and large it seems to be the Italian side of Alagna that has the upper hand – a healthy and stirring voice with top notes that ring out.

The programme was in two halves: the first French, the second Italian. As is usual in a solo recital, Alagna took some time to warm up, but I doubt that he ever has tha lightness of touch needed to bring arias by 18th-century French opera composers like Méhul and Gluck to life. Solos from Halévy's *La Juive* and Goun-od'a *Polyeucte* allowed him to show off the voice more effectively, suggesting that he might excel at Massenet, where French and Italian styles fuse – as indeed he was to prove later.

The Italian second half was all impressive. It is a joy to hear a young voice, bright but warm, with plenty of body, no technical problems, a good sense of musicianship, pour out in Bellini's *Il pirata* and Verdi's *Il trovatore* in its youthful prime. Then, in Boito's *Mefistofele*, he went one step further, finding light and shade in his voice to create the kind of atmosphere that will send shivers down the backs of his audiences. Bertrand de Billy conducted the Royal Opera House orchestra.

Any record company with an ear to the future will have been knocking at his dressing-room door and it is EMI that has been invited in, signing Alagna as an exclusive artist for solo repertoire. After his inspirational singing of Massenet's *Werther* as an encore they would be wise to make sure that is on one of his first discs. The combination of full-throated Italian top notes and French sensitivity could prove irresistible.

Richard Fairman

Clive Barda

Roberto Alagna: his dual cultural heritage has produced a voice with an irresistible combination of full-throated Italian top notes and French sensitivity

Regional Theatre

Courageous 'Holidays'

While Steven Berkoff storms away as Coriolanus in the Quarry Theatre, in the Courtyard, West Yorkshire Playhouse's studio space, John Harrison's brave new play tackles the other big C. Cancer.

Harrison's wife died of cancer two years ago and *Holidays* is a courageous foray back into the lion's den. The play focuses on Rose, a pretty, middle-aged, middle-class woman, who is holing up in her counsellor's cottage in the Yorkshire Dales to make a decision about her future treatment. She has had a mastectomy, then a shadow on the lung which she seems to have controlled with will-power, and she now has a tumour in her neck. Should she take the medical treatment on offer and suffer the side effects, or battle on, applying mind over matter?

This decision is, ostensibly, the reason for her retreat. But soon we realise that neither for Rose nor for Harrison is it the real issue. The retreat is a device to enable her to take command of her own life. As Rose confides to the tape recorder, flashbacks to earlier holidays reveal flashpoints in her life.

Is there a psychological or emotional route to Rose's illness? If so, what? Her guilt at not being by her mother's death bed? Her being denied children or the chance to fulfil her artistic nature – both conditions engineered by her rich husband? Or is the problem her husband Arthur himself (Terence Wilton)? It becomes clear that these are problems she should face, and that she should learn to live life to the full.

Rose embraces her week of solitude avidly, but she reckons without the arrival of Ralph, the odd-job man – a sensitive hulk who can rod a flue and quote poetry without pausing to draw breath. He offers a refreshing change from Arthur, the sort of man who irons his beach shorts and says things like "if you take your eye off the ball for a second, you're out of the game". Soon Rose is enchanted.

But Ralph, appealingly played by David Michaels, turns out to be just a decoy – not offered as Rose's solution but as a catalyst to her real solution. But this, a literal flight from everything, seems distressingly superficial.

The production, directed by Harrison himself with Jude Kelly, accentuates the positive, is funny, honest and never maudlin. Michaels and Wilton do well with their decidedly sketchy characters and the bird-like Morag Hood, as Rose, is lovely – engaging, vulnerable, vivid. Elsewhere, however, like the rusty old Aga in the cottage, the play huffs and puffs too much about getting into action.

Sarah Hemming

Continues at the West Yorkshire Playhouse to July 1 (0113-244-2111).

Wharton's 'House of Mirth'

In contrast to Martin Scorsese's unaccustomed delicacy of touch in filming Edith Wharton's *The Age of Innocence*, director Annie Castledine and adaptor Dawn Keeler have made of the same writer's *The House of Mirth* an unappealing slab of turn-of-the-century bourgeois vacuity.

Lily Bart (Jane Maud), living beyond her means among the idle middle-classes and unable (once her situation becomes known) to secure a marriage either for love or money, might charitably be viewed as a distant relation of Emma Bovary or Anna Karenina. However, in comparison with these heroines Lily's passions are very diluted.

The piece is intended as social comment as much as drama, but Castledine and Keeler struggle vainly to imbue their characters with even the vague substance required to make an audience care for a moment about their complacency and hypocrisy.

As often as not, characters deliver even dialogue straight out to the audience, which ably conveys the impression of simply going through the motions of personal interaction, but deprives them of even basic pretence of social connection. This distancing is exacerbated by placing actors at differing levels on Iona McLeish's set of iron steps and tubular steel gantries and arcs.

Miss Maud is in control of matters through the first act, in which Lily is feted and courted by a number of well-heeled acquaintances (most notably Ann Firbank as Judy Trenor, the den mother failing to suppress an unbecoming impulse to gossip). Yet Lily does not establish herself powerfully enough as an individual to carry off the complete reversal of fortunes which takes place after the interval. Bourgeois tragedy has always been a problematic concept, and is one which this production fails to resolve.

When watching theatre, I sometimes feel like the little girl watching the state opening of parliament, who, on seeing the Lord Chamberlain in all his finery, asked: "Daddy, what's that man *for*?" Answer, in the case of *The House of Mirth*, came there none. Cambridge Theatre Company is in the throes of renaming itself Method and Madness; this production lacks either.

Ian Shuttleworth

At Oxford Playhouse until June 10 (01865 798600), then on tour.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERTS
Het Concertgebouw Tel: (020) 671 8345
● Royal Concertgebouw Orchestra: with the Netherlands Radio Choir. Mariss Jansons conducts Schoenberg and Shostakovich; 8.15pm; Jun 9
GALLERIES
Gemeentearchief Amsterdam Tel: (020) 572 0202
● Mahler in Amsterdam: exhibition on the lifa and works of Mahler with an assortment of manuscripts, letters, scores and films; to Jun 11
OPERA/BALLET
Het Muziektheater Tel: (020) 551 8922
● Die Meistersinger von Nürnberg: by Wagner. Hartmut Haenchen conducts the Netherlands Philharmonic Orchestra; 5.30pm; Jun 10, 13

BERLIN

CONCERTS
Konzerthaus Tel: (020) 309 21 02/ 21 03
● Berlin Symphony Orchestra: with pianist François-René Duchable. Michael Schoenwandt conducts Franck, Bürger, Debussy and Bizet; 8pm; Jun 9
● Berlin Symphony Orchestra: Kurt Sanderling conducts Beethoven and Mozart; 8pm; Jun 15
OPERA/BALLET
Deutsche Oper Tel: (030) 34384-01
● Der Rosenkavalier: by Strauss. Conductor Jiři Kout, production by Götz Friedrich; 7.30pm; Jun 13, 15
● Onegin: music by Tchaikovsky. Premiere at this venue, choreographed by John Cranko, produced by Reid Anderson and Jane Bourne; 7.30pm; Jun 14
● The Force of Destiny: by Verdi. A new production conducted by Rafael Frühbeck de Burgos and produced by Hans Neuenfels; 7pm; Jun 9
● The Masked Ball: by Verdi. Conducted by Rafael Frühbeck de Burgos/Sebastian Lang-Lessing, produced by Götz Friedrich; 7.30pm; Jun 12,
● Tristan und Isolde: by Wagner. Conducted by Jiři Kout and produced by Götz Friedrich; 5.30pm; Jun 11

FRANKFURT

OPERA/BALLET
Oper Frankfurt Tel: (069) 23 60 61
● Lady Macbeth of Mtsensk: by Shostakovich. Conducted by Guido Johannes Rumstadt and produced by Werner Schroeter; 7.30pm; Jun 11, 15

GENEVA

OPERA/BALLET
Grand Theatre de Geneve Tel: (022) 311 2211
● Orphee: by Gluck, French adaptation by Pierre Louis Moline. Conducted by Jeffrey Tate, produced by Andreas Homoki. Soloists include Anne Sofie Von Otter, Barbara Bonney and Elizabeth Futral; 8pm; Jun 12, 15

LONDON

CONCERTS
Barbican Tel: (0171) 638 8891
● London Symphony Orchestra: with soprano Cheryl Studer and cellist Tim Hugh. Andre Previn conducts Mozart, Beethoven and Strauss; 7.30pm; Jun 15
● Royal Philharmonic Orchestra: with violinist Jonathan Carney. Yehudi Menuhin conducts Mozart, Takemitsu and Brahms and Sir Peter Maxwell Davies conducts the London premiere of his "Time and the Raven: United Nations Overture", written for the 50th anniversary celebrations of tha UN; 7.30pm; Jun 14
Royal Festival Hall Tel: (0171) 928 8800
● Itzhak Perlman: violinist with tha Philharmonia Orchestra. Lawrenca Foster conducts Beethoven; 7.30pm; Jun 10
● Itzhak Perlman: with the Philharmonia Orchestra. Yoel Levi conducts Brahms' "Academic Festival Overture" and "Violin Concerto" plus Mozart's "Violin Concerto No.3"; 7.30pm; Jun 13
● Itzhak Perlman: Yoel Levi conducts Bernstein, Barber and Tchaikovsky; 7.30pm; Jun 15
● Murray Perahia: pianist plays Scarlatti, Handel, Beethoven, Schumann and Chopin; 7.30pm; Jun 9
● Vanessa-Mae: violinist with the English Sinfonia. Oliver Gilmour conducts Schubert, Bruch, Arnold and Schumann; 7.30pm; Jun 14
GALLERIES
National Portrait Tel: (0171) 306 0055
● Richard Avedon: large scala photographic portraits and fashion photographs; to Jun 11
Royal Festival Hall Tel: (0171) 928 8800
● Art Unlimited: multiples from tha 1960's and 1990's including work by Damien Hirst and Jenny Holzer; to Jun 11
Serpentine Tel: (0171) 402 0343
● Mark Wallinger: exhibition that surveys the full range of Wallinger'a painting, photography, aculpture, installations and video; to Jun 11
OPERA/BALLET
Royal Opera House Tal: (0171) 304 4000
● Billy Budd: by Britten. A new production conducted by Robert Spano and directed by Francesca Zambello. Soloists include Graham Clark, Francia Egerton, John Duykers and Rodney Gilfry/Peter Coleman-Wright; 7.30pm; Jun 9, 13, 15
● La Bohéme: by Puccini. Conducted by Jan Latham-Koenig and directed by John Copley. Soloists includa Cynthia Haymon, Nancy Gustafson and Roberta Algana/Tito Beltran; 7.30pm; Jun 10 (7pm)
THEATRE
Donmar Warehouse Tel: (0171) 369 1732
● Insignificance: writtan and directed by Terry Johnson. Cast includes Frances Barber, Alun Armstrong, Jack Klaff and Ian Hogg; 8pm; (not Sun)
National, Cottesloe Tel: (0171) 928 2252
● Richard II: by Shakespeare. Deborah Warner'a new production featuring Fiona Shaw as the king; 7.15pm; Jun 12, 13, 14 (2pm)
National, Olivier Tel: (0171) 928 2252
● Under Milk Wood: by Dylan Thomas. Directed by Roger Michell and stars Robert Blythe; 7.15pm; Jun 12, 13 (2pm), 14
● Women of Troy: by Euripides, translated by Kenneth McLeish and directed by Annie Castledina; 7.15pm; Jun 9, 10 (2pm)

PARIS

CONCERTS
Châtelet Tel: (1) 40 28 28 40
● New York Philharmonic: Kurt Masur conducts Shostakovich and Beethoven; 8pm; Jun 9
Champs Elysées Tel: (1) 49 52 50 50
● National Orchestra of France: with soprano Monica Pick-Hieronimi, mezzo-soprano Nadja Michael, tenor Thomas Dewald and bass Michael Volla. Charles Dutoit conducts Beethoven's "Symphony No.1" and "Symphony No.9"; 8pm; Jun 14, 15
OPERA/BALLET
Champs Elysées Tel: (1) 49 52 50 50
● Ezio: by Handel. Conducted by Robert King, directed by Stephan Medcalf and with the King'a Consort. Soloists include James Bowman, Susan Gritton and Dominique Visse; 7.30pm; Jun 9, 10
Opéra National de Paris, Bastille Tel: (1) 47 42 57 50
● Les Capulet et les Montaigu: by Bellini. Conducted by Bruno Campanella and produced by Robert Carsen. Soloists include Jeffrey Wells, Cecilia Gasdia and Jennifer Lamore; 7.30pm; Jun 9, 12

VIENNA

CONCERTS
Gesellschaft der Musikfreunde Tel: (1) 505 1363
● Les Arts Florissants: William Christie conducts soprano Susan Bullock, mezzo-soprano Susan Bickley and tenor Marc Padmore to play Beethoven; 7.30pm; Jun 14
Wiener Kammeroper Tel: (1) 512 0100
● Viennese Philharmonic Orchestra: with soprano Deborah Voigt and baritone Bryn Terfel. Giuseppe Sinopoli conducts Schoenberg and Zemlinsky; 7.30pm; Jun 9
Wiener Konzerthaus Tel: (1) 712 1211
● South Western Radio Orchestra: with soprano Julie Moffat. Ingo Metzmacher conducts Webern and Mahler; 7.30pm; Jun 12
● Viennese Symphony Orchestra: with pianist Radu Lupu. Kurt Sanderling conducts Beethoven and Shostakovich; 7.30pm; Jun 10
● War and Peace: by Prokofiev. Concert performance with Pinchas Steinberg conducting Austrian Radio Symphony Orchestra. Soloists includa Elena Prokina and Marina Shutowa; 7.30pm; Jun 13

WASHINGTON

THEATRE
Kennedy Center Tel: (202) 467 4600
● Angels in America: Perestroika. Tony Kushner's award-winning play about politics, sex and religion. Stars Jonathan Hadary; 7.30pm; from Jun 9 to Jul 9 (not Mon)

WORLD SERVICE
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European Money Wheel
Nonstop live coverage until 14.00 of European business and the financial markets

17.30
Financial Times Business Tonight

Midnight
Financial Times Business Tonight

Plight of a sick dinosaur

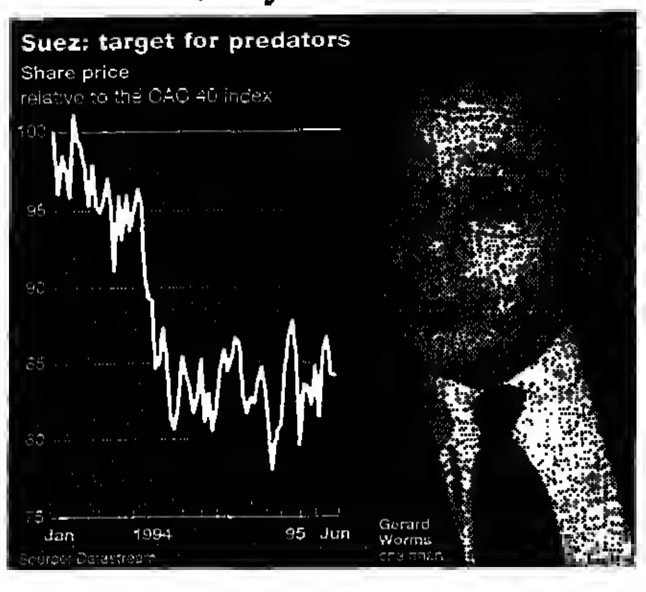
A string of serious problems has placed the future of Suez in doubt, says Andrew Jack

Compagnie Suez, France's flagship industrial and financial holding company, is this week facing one of the biggest crises in its history since the Egyptian canal that bears its name was nationalised in 1956.

In the past few days the group has been the subject of a series of rumours suggesting that it is about to be taken over, broken up or fundamentally restructured. These reflect intensifying criticism of its strategy, share price performance and financial results over a period of several years.

The plight of the company is particularly important because, more perhaps than any other in the country, it is seen as a symbol of the country's business establishment and the rules which govern it. These appear to be under unprecedented threat.

"Suez is a bit like a sick dinosaur," says one senior French executive. "The only question is how it will be carved up; whether it is going to die graciously or in a rather more sad way." While such views may be extreme, few commentators expect the group to emerge unscathed from its predicament.



Source: Datastream

The latest flurry of speculation about the company's future came at the start of this week, when the French press reported that the government had blocked a proposed three-way merger involving Suez and two of its largest shareholders, Banque Nationale de Paris (BNP) and Union des Assurances de Paris (UAP). Such a deal would have created a huge financial services group with assets of FFr130bn ($15.22bn).

While all three companies moved swiftly to deny the specific proposal – and the new government was equally quick to reject suggestions that it had even been consulted on such a plan – they said much more than is habitual in the discreet world of French business.

Both BNP and UAP – which respectively hold 5 per cent and 6.9 per cent of Suez's shares – made pointed comments about the importance of close scrutiny of Suez's strategy and profitability. Both hinted that they were interested in some form of changed relationship or restructuring of the group.

In the middle of the week Suez admitted there had been "preliminary contact" between Mr Gérard Worms, its chairman, and Mr François Pinault, the head of Pinault Printemps Redoute, the retail conglomerate. The implication was that Mr Worms was seeking a white knight to fend off an attack from BNP and UAP.

It is unlikely that any of these developments would have happened without a growing sense of frustration with Suez's financial performance. In February Mr Worms took the markets by surprise by unveiling losses of FFr4.7bn, and a provision against its property portfolio of FFr7.6bn.

But the history of the group's problems goes back much further. Founded in 1858 to build and operate the Suez Canal, the company faced its first serious shock when President Nasser of Egypt nationalised the waterway almost exactly a century later.

The company is seen as a symbol of the country's business establishment

With the proceeds it received, Suez started to diversify into a holding company for industrial and banking investments. But a second serious shock came when it was nationalised in 1982 by the socialist administration of the then president, François Mitterrand.

Many commentators suggest that the beginnings of this crisis date from its subsequent privatisation in 1987. At a subsequent meeting with financial analysts, one of those present recalls with dismay the words of Mr Renaud de la Genière, the new chairman, when asked to outline the group's plans. "We have a strategy – we are going to be big," Mr de la Genière is said to have replied.

With a portfolio spanning banking, industrial and service investments, many suggest that the group remains too unfocused, although Mr Worms, who succeeded Mr de la Genière when he retired due to ill-health in 1990, insists he has a clear vision for the company to act as an "agent of change".

Mr Worms has nevertheless been unable to improve the performance of the company's shares which have long lagged the market, offering shareholders little evidence of its ability to provide a good return on their investments.

Mr Pierre Flabée, an analyst with Société Générale, says: "Suez is like a lot of listed holding companies that were very popular in the 1980s which traded at a low discount but have since been repurchased. Frankly I don't see why it is still quoted."

Several developments have contributed to Suez's financial problems, dragging it into debt and restricting its ability to invest sufficiently. First was its heavy exposure to the Paris property market, which has suffered an unprecedented slump touching many financial groups.

Second was the acquisition at the peak of the market in 1988 of Société Générale de Belgique, the industrial holding company which pre-dates the Belgian state. Finally, a year later, it bought Victoire, the French insurer with which it had long been associated, and which it was forced to sell last year.

Analysts see these acquisitions as part of a broader reflection of Suez's grand vision as a central cog in the country's business community. It has taken key stakes in other flagship private-sector or reprivatised groups and is represented on their boards, and they are interlocked with it in the same way.

"Suez has behaved as a sort of glue for the French establishment," says Mr Pierre-Yves Gauthier, an analyst with Goldman Sachs. He says this form of "mutual assurance" has left the group hidebound and unable to take a series of tough decisions.

Further difficulties have stemmed from the presence on the board of several financial and industrial groups with frequently conflicting interests. No single large shareholder can hold sway within the group.

Views on the performance of Mr Worms, meanwhile, are mixed. Some blame him for the difficulties of the group, which he has led for five years and in which he previously held other senior positions. Others are more patient. They see him as being prevented from taking decisive action by the need to having to deal diplomatically with the legacy of his predecessors.

He has certainly proved an effective tactician, remaining in power through Suez's difficulties and determined not to be seen as the man to oversee the demise of the group and its name. But, as shareholders gather for next Wednesday's annual general meeting, he will need to offer some impressive responses to their concerns.

Philip Stephens

The sceptics bargain

When Robin Leigh-Pemberton put his name to the Delors report on economic and monetary union back in the spring of 1989, he anticipated the ire of Margaret Thatcher. With shaking hand, the then Bank of England governor wrote to the then prime minister to explain his apparent treachery. The central bankers on the Delors committee, he explained, had not usurped her prerogative. They had done no more than set out the theoretical framework for a single currency. What happened next rested with the politicians. Mrs Thatcher did not reply, and some time later Mr Leigh-Pemberton inquired of her office whether this was an intentional snub. He was advised to keep his counsel: an aide explained that, if the prime minister had decided to respond, her pen would have scorched the paper.

Six years on this mild-mannered Tory squire has done it again. He speaks now as Lord Kingsdown and no longer occupies the governor's chair at the Bank. But the report on economic and monetary union to which he lent his name yesterday will be as welcome to John Major as was his signature on the Delors report to Mrs Thatcher.

The Kingsdown Report, produced under the auspices of the great and the good at the Action Centre for Europe (patrons Lords Whitelaw and Howe), will not satisfy those searching for simple answers as to whether sterling should join a single currency. No, it is a grown-up document, reflecting the careful analysis of those whose belief that Britain's future lies in Europe is based on rational analysis rather than blind ideology. It reminds me of the sort of sensible speech that Douglas Hurd gave before his party was imprisoned by its Europhobes.

The conclusions are positive but also questioning: on balance the gains of participation would outweigh the disadvantages, but the uncertainties and complexities should not be dismissed lightly. It acknowledges the case of those who argue that monetary union demands the substance of political union, and that a single monetary policy would seriously inhibit national jurisdiction over fiscal policy.

The authors make two obvious, but too often neglected, points. Abstract debates about whether a single currency is a good or a bad idea are a distraction. If Germany and France press ahead, the issue is whether to be in or out. That decision in turn will define Britain's political as well as its economic relationship with the rest of Europe. At the core of the equation is an assessment of the economic risks (and there will be risks) of participation and of the political costs of standing alone. The ultimate decision, though, must be a political one.

This central virtue of the report – its very reasonableness – is what will make Lord Kingsdown such an unwelcome guest again at No 10. It demands a debate over Emu which reaches beyond the cheap slogans of the Tory nationalists and the outdated romanticism of dewy-eyed Europhiles. And, in so doing, it returns the spotlight to the sheer vacuity of the government's stance. The cabinet rests on the absurd position that such vital issues must not be addressed until the moment when others finalise their plans. Some of us remember when the prime minister paraded the Maastricht opt-out as an opportunity for careful, considered reflection. Now it is cast like a ragged veil over the fault lines in his party. Others may discuss the pros and cons of a single currency, ministers of the Crown may not. Kenneth Clarke is for, Michael Portillo is against; ergo the cabinet must promote the cause of unthinking agnosticism.

There is a important deceit, though, in this supposed neutrality. It is the sceptics who hold the high ground. They have taken Mr Major hostage. Now, they boast openly, he will survive only if he joins them. They have a point. In Downing Street these days the talk is nothing but two political imperatives. The prime minister must deflect a threatened leadership challenge in the autumn, the last real chance his enemies will have to dislodge him. If he succeeds, he must preserve the fiction of party unity in the run-up to the general election.

He knows where the biggest threat to his leadership lies. Why else would he receive in coming weeks a delegation of his party's most ardent anti-Europeans, Norman Lamont among them? (I am told incidentally that the meeting between Mr Major and his former chancellor will be on the same terms as that between Sir Patrick Mayhew and Gerry Adams – a handshake but no photographs.) The sceptics offer a clear bargain: rule out a single currency for the lifetime of the next parliament and we will allow you to stay in No 10.

I am assured that Mr Major is not ready to sign a formal note of surrender. To do so would be to invite not only the resignation of Mr Hurd (who might yet surprise us and depart anyway this summer), but also of Kenneth Clarke and Michael Heseltine.

Abstract debates about whether a single currency is good or a bad are a distraction

But Mr Major's friends are under no illusion as to the seriousness of the risk to his leadership. The plotting is open and unashamed; the sceptics insist they have the numbers to provoke a leadership challenge in November. So, as he confirmed in the Commons yesterday, the prime minister's rhetoric is tailored to the prejudices of those he has described as suitable quarry for men in white coats. And thus the latest formulation that "arguably the circumstances may not ever be right" for sterling to join.

His posture for next year's intergovernmental conference takes Mr Major in the same direction. At last weekend's first gathering of the union's reflection group, the pretence was maintained that the IGC would be a modest affair. In the phrase coined by Sir John Kerr, Britain's permanent representative in Brussels, Europe needs a 6,000-mile service, not a brand new car. That judgment is shared by other governments only in its most technical sense.

Sure, there is little appetite elsewhere for another wholesale institutional upheaval. Yes, when they meet later tonight in Paris, President Jacques Chirac will reassure Mr Major that France is not in the business of proposing new powers for the European parliament, or of giving up sovereignty over its defence and foreign policies. But that is looking no further than the IGC's formal agenda.

There are two grand bargains to be struck on the margins which will be far more important in shaping the future of the union. The first will be that between Germany and France on the economic and political terms for Emu; and the second between northern and southern states on the financial arrangements which would permit enlargement to the east. The issue of a single currency cannot be detached from the fundamental political debate on which the outcome of the conference will turn.

Now look at the government's stated position. All we now have heard is that Mr Major will veto any attempt to widen the use of majority voting, will block any significant accretion of powers to the European parliament and will not allow any extension of the competence of the Brussels Commission. It is an approach destined to ensure that the IGC continues beyond the next election.

But the logic dictates much more than that. A prime minister who goes to the electorate promising to preserve every speck of British sovereignty cannot but at the same moment rule out joining a single currency. Promising never to allow majority voting on, say, the European science and research budget while leaving open the possibility of abolishing the pound is beyond the casuistry even of this government. So the sceptics have won. Perhaps Mr Major will soon echo his predecessor and announce that Britain will join a single currency only "when the time is ripe". She, of course, meant never. But we all know where the formula eventually led her.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). Translation may be available for letters written in the main international languages.

US still faces tough defence decisions

From Prof Harvey M. Sapolsky.

Sir, Your coverage of the contest to buy the British submarine maker VSEL makes frequent reference to the wave of mergers occurring among American defence contractors which you describe as having rationalised the US defence industry. Would that this were the case. After all the combinations, we still have eight military aircraft lines, six large private shipyards, five helicopter makers, and four tactical missile producers open and little need for half of them.

The US mergers have shuffled corporate nameplates and officers, but have not eliminated excess capacity in the defence industry. The lobbying for orders has only intensified. Alas, the Congress that seemed ready so recently to cut government expenditures has begun adding aircraft and ships, including some unwanted by the military, to the defence budget. The tough decisions have yet to be made in the US.

Harvey M. Sapolsky,
director,
Defence and Arms Control Studies Programme,
Massachusetts Institute of Technology,
Cambridge,
Massachusetts 02139, US

Anti-trust contradictions

From Mr Tony Miller.

Sir, I was surprised your article on Kodak's charges against Fuji ("Kodak claim exposes Fuji's grip on market", June 1) made no mention of their previous locking of horns in the US. The latter provided a fascinating glimpse into the contradictions between anti-dumping and anti-trust law in the US, and the absurdities arising from rulings, as well as the intellectual flexibility of expert witnesses. In the words of the US publication, *The Rushford Report*, "dumping laws make illegal some economic activities that anti-trust laws find not only worthwhile but in the best interest of consumers".

No surprise that Hong Kong will be looking to promote the interest of consumers in any future discussion on these issues in the World Trade Organisation.

Tony Miller,
director-general of trade,
Hong Kong government,
Trade Department Tower,
700 Nathan Road,
Kowloon, Hong Kong

Danger of citing Victorian values echoed elsewhere

From Dr G.J. Boris Allen.

Sir, Samuel Brittan reminds us ("Beware the new Victorians", June 5) that viewing the Victorian age as a golden age of morality and probity in the UK is contradicted by the reality of people's behaviour in that era.

In the US, Victorian certainty has its equivalent in calls to return to a more recent morality, to the white American dream of the 1950s. As with a return to Victorian certainty, American conservatives ignore the reality of people's behaviour in the 1950s. Recent research has shown that, in reality, illegitimacy rates were higher in the 1950s, and many social problems were worse than now.

In addition, conservatives ignore that this decade was still a time of segregation in the south and of discrimination in the north. For example, the decade started with a landmark Supreme Court decision removing the legal basis of segregation in schools, only to be followed by violence over federal-mandated school integration.

The federal mandate did not extend too far, however, because at the end of the decade there was still widespread racial discrimination in Washington, DC, the nation's capital – indeed, the Washington Redskins football team did not field a black player until the 1960s.

Given the suspect historical perspectives employed to legitimise returns to earlier moralities, each with its social divisions and its exploitation, we can only wonder about the true nature of tha morality involved.

G.J. Boris Allan,
7414 Birch Avenue,
Takoma Park,
Maryland 20912,
US

From Mr Michael L. Foreman.

Sir, Samuel Brittan ("Beware of the new Victorians") quotes at length from that part of Jane Eyre that describes Mr Brocklehurst's abominable Lowood Institution. This he does "as a corrective to tha new fashion for Victorian virtues".

Jane Eyre was published in 1847, when Queen Victoria had reigned for only 10 of her 63 years, and Lowood was based on a school that Charlotte Brontë had attended in 1824-25. Calling attention to the evils of pre-Victorian Britain serves only to emphasise the improvements achieved during the Victorian era.

Michael L. Foreman,
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Sevenoaks,
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Approach to EU research co-ordination is misguided

From Mr Stelios Argyros MEP.

Sir, The Financial Times recently reported on the ambitious agenda of Mrs Edith Cresson, the European commissioner for research and technology ("Cresson pushes her big ideas on R&D", May 12). Mrs Cresson, you noted, plans to promote industrial collaboration, the development of "strategic" technologies and the EU's role in public research.

But it is another endeavour by the commissioner – that of promoting the co-ordination of national research policies – that is proving remarkably misguided.

Mrs Cresson wants to use part of an Ecu700m reserve available conditionally to the EU's multiannual "framework" research programme in 1996 to stimulate supplementary research programmes involving only certain member states, as envisaged in the Maastricht treaty.

This proposal mistakes ends for means. The supplementary research programmes foreseen in the treaty are supposed to be the result of initiatives by member states which together account for 96 per cent of public research expenditure in western Europe. Once member states have devised and agreed to fund such projects, limited Community contributions are possible.

In assuming that programmes meant to be the product of national co-ordination can be used to bring it about, Mrs Cresson appears to believe that there is little the member states can do on their own to enhance co-ordination. That is hardly the case, however. Member states *could* be co-ordinating incentives for technological innovation launching specific projects for joint research and increasing competition among national research centres.

To those ends, tha European Commission ought to be focusing on the effective implementation of the "framework" programme, which will lay the groundwork for more national policy co-ordination.

It will do so by fostering broad scientific and industrial collaboration, improving the quality of information about national R&D programmes and highlighting the compelling need for more efficiency in European research. That, in turn, should make the member states more willing critically to assess their own research needs.

EU contributions to supplementary research programmes will be worthwhile considering only if those programmes already exist, if they represent a streamlining of national research activities and if they complement EU programmes. Otherwise the EU risks not only perpetuating inefficient national policies but also undermining its own modest but valuable research programme.

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FINANCIAL TIMES
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Friday June 9 1995

New test for the WTO

The World Trade Organisation is not yet six months old, but it already has plenty of opportunities to prove itself. In addition to adjudicating the car trade conflict between the US and Japan, the WTO is racing the clock to conclude a landmark agreement to open world financial services markets. Though less bitter than the cars dispute, these negotiations also pose a critical test of the WTO's effectiveness and cohesion.

They represent the first serious trial of its ambitions to extend liberalisation beyond frontiers and into the domestic policy arena. Apart from its intrinsic value, a financial services deal would inject political impetus into parallel negotiations on telecommunications and maritime transport, and could be a launch pad for WTO efforts to agree on multilateral investment rules.

Failure could exact a high price. There is a real risk that it would unleash protectionist pressures in one of the fastest-growing areas of the global economy. That possibility has been increased by the Clinton administration's threat to exempt trade in financial services from Most Favoured Nation treatment unless other countries - chiefly in Asia and Latin America - offer adequate concessions in the WTO.

That would enable the US to limit foreign institutions' access to its financial markets. If Washington took such a step, the EU would be likely to follow suit. At the least, such an outcome would create much international uncertainty. At worst, it could fragment financial markets, distort global capital flows and encourage mutual reprisals spilling over into other areas of trade.

It is not clear how far Washington's tough stance has won bigger concessions – or even whether that is its main objective. Some observers suspect the US position reflects lack of confidence in the WTO negotiations, and a belief that it would do better to stick to aggressive unilateral tactics. That would be a dangerous mistake.

The strongest reason to liberalise financial services is to enhance economic dynamism and national prosperity. Inefficient financial markets raise the cost of capital and mis-allocate scarce resources. They also impede the foreign capital inflows on which economies worldwide increasingly depend.

However, if governments resist the force of these arguments in multilateral negotiations, they would be unlikely to prove more amenable to bilateral arm-twisting outside the WTO framework. Unilateral US threats to close its market would only carry weight if producers in other countries were keen to compete in it. But that is true of few, if any, financial institutions in the emerging economies from which the US most wants concessions. For them, this kind of sectoral reciprocity is of little interest.

With three weeks until the deadline for an agreement, the Clinton administration needs to judge its tactics carefully. Liberalisation of services trade was placed on the WTO agenda at the strenuous US insistence. After devoting so much effort to secure that achievement, is Washington really ready to turn its back on it, in favour of unilateral initatives which offer uncertain gains but involve high risks?

The emerging economies, meanwhile, need to recognise clearly why it is in their own interest to speed up liberalisation – and what they stand to lose through delay. If they doubt the importance of what is at stake, they need only look at the heavy penalty which over-regulation and weak competition are now exacting on Japan's banking and financial markets.

Gas controls

Yesterday's report from Ofgas propels the gas regulator further into one of this year's hottest political battlegrounds: the row over whether the framework for regulating the UK's privatised utilities is failing. Ofgas spells out the framework's flaws more bluntly than other regulators have yet done. It also shows that there are no easy answers.

The consultation paper tackles the regulation of TransCo, British Gas's transportation and storage business, set up on an arms-length basis from British Gas to encourage competition in gas supply. At present, TransCo's annual increases in revenues are capped by an "RPI minus X" formula, linked to the retail price index, now the basis of regulation for all privatised utilities.

One of the main attractions of that framework is that it gives companies an incentive to improve efficiency: between regular pricing reviews, they can keep improvements in profits. However, Ofgas observes, the formula presents the regulator with the huge problem of getting accurate information: it is hard to predict future costs over long periods. Moreover, companies have an incentive to exaggerate estimates, in order to obtain a loose price cap. That problem is acute where the company is partly a natural monopoly, as TransCo is, because there are no comparable figures from rivals.

Ofgas suggests three main modifications of the formula, but acknowledges that each has flaws. First, the period between price reviews might be shortened, perhaps to three years. However, this would increase regulatory uncertainty and might decrease incentives to improve efficiency.

Second, on the premise that capital spending figures are the hardest to predict, and the most easily exaggerated, the regulator might be allowed to intervene between reviews if those figures proved very different from forecasts. This is worth examining seriously, although it too could reduce efficiency incentives.

The third suggestion, recently embraced by the Labour party, is that profits above a certain level should be shared between customers and shareholders. The advantage is that unexpected outcomes are dealt with predictably. But it does not remove the temptation to exaggerate costs, and may, again, reduce efficiency incentives.

Those looking to reform the present rules should not lightly discard the incentive to improve efficiency. It would be rash to assume that most efficiency gains have already been made, or that better information would compensate. Ofgas's report illuminates the problems of the present framework; it also suggests why it may be preferable to the alternatives.

Emu decision

In the UK and certainly within the Conservative party, European economic and monetary union has become a taboo topic. The disagreements are by now too deep and painful. The response has been to assume that Emu will not happen; or, if it does, that it will not work; and, in any case, that nothing will happen for years and years – or at least until after the next election.

Yet it is more probable than not that some form of Emu will be put into effect by the end of this decade. Certainly, the European Commission, under the determined direction of Mr Yves-Thibault de Silguy, is doing its best to prepare the way, notably with publication at the end of last month of its "green paper" on the practical arrangements for the introduction of the single currency.

All depends on Germany and France. Yet Germany cannot renege on its offer of Emu without doing irreparable damage to its most important bilateral relationship. Meanwhile, it would be downright frivolous for France to insist that Germany sacrifice the D-mark only to fail to meet the Maastricht treaty criteria itself.

Where does this leave the UK? With an opt out and a headache. Why it has that headache can be understood by perusing two reports published yesterday. One, from the Institute of Directors, concludes that the UK should not join Emu. Another, from the Action Centre for Europe (ACE), under the chairmanship of Lord Kingsdown, former governor of the Bank of England, concludes that "on balance... the witnesses we heard and the evidence they gave, tended to weigh in favour of British participation."

These two reports underline three points: first, that the issue of participation must be thoroughly debated now, not left to a hasty decision at the last moment; second, that economic arguments for and against British participation are complex and far from decisive; third, that even if the political consequences of Emu are debatable and fiercely debated, "the Maastricht plan is politically-driven", as the ACE report notes, and "is likely to have far-reaching political consequences".

Indeed it would. Emu would, in principle, be an eternal commitment. If the UK were to enter, its politicians would, at some point, have to defend policies that are blamed for economic stagnation and are made by an unaccountable central bank located in Frankfurt. If the UK were not to enter, politicians would have to admit that the UK had stood aside from the subsequent political evolution of the continent. This choice will never be easy. But it would be idiotic to assume it will never have to be made.

A very fast game of Monopoly

Yesterday's takeover bid by TeleWest should boost the value of UK cable operators, says Raymond Snoddy

Tuning in to progress: cable television being installed in Westlea, west Swindon

Yesterday was a good day for Mr Eugene Connell, chief executive of Nynex CableComms, the UK's second largest cable company. Mr Connell is on a roadshow in the US to promote a flotation of Nynex shares in New York and London designed to raise about £400m.

Yesterday's agreed takeover by TeleWest, the largest cable company, of SBC CableComms, the fifth largest, pushed Nynex much deeper into second place in the UK cable industry. But the takeover is likely to boost the market value of UK cable companies, as it provides a first sign of the consolidation in the industry that many analysts see as essential if it is to be successful.

"My best guess is that within two of three years there will be four or five players, and they will have 90 per cent of the market," says Mr Connell, who also chairs the Cable Communications Association, the industry trade organisation.

The first modest round of consolidation in UK cable took place about two years ago with the larger operators scooping up some smaller ones, and some north American companies leaving the UK market. But until yesterday's TeleWest deal, the industry remained relatively fragmented, with 16 companies serving the more than 15m homes covered by cable franchises.

Mr Richard Woollam, managing director of the association, puts it more graphically: "This is going to be a very fast game of Monopoly."

The TeleWest and SBC Communications deal values SBC at £679m. The logic is that there are economies of scale to be obtained on everything from purchasing programmes and equipment to administration and management. Even more important is the creation of an organisation with enough resources to improve the quality of programmes.

Allowing for the fact that some franchises are partnerships with other operators, the new TeleWest will have the equivalent of 358,500 cable television subscribers, 318,000 residential telephone lines and 29,000 business lines.

The acquisition also extends TeleWest's geographical coverage from the existing franchises in London and the south-east, the west of England, the Midlands and Scotland. SBC's two clusters of franchises are in the north-west of England and the west Midlands from the Black Country to Telford.

Other cable groups are likely to follow TeleWest's lead. Nynex is expected to be on the acquisition trail when its flotation is out of the way.

Mr Alan Bates, chief executive of Bell Cablemedia, the third largest operator, said yesterday he had no intention of losing out. The company has 1.655m homes in its franchise areas and is determined to be a predator rather than a target.

In the US, a similar process of consolidation is under way, although driven by different pressures. Re-regulation of the industry is forcing reductions in basic subscription charges and squeezing the weaker operators.

Only the larger cable companies are likely to be able to invest in the upgrading of old networks necessary to provide the increasing range of multimedia services such as video on demand. Further investment will also be needed if – as seems possible – US cable operators are allowed to offer telephone services, as the UK operators have for more than five years.

The renewed consolidation in the UK comes at a time when the cable industry appears to be stronger than ever before. The latest figures from the Independent Television Commission, the cable regulator, show that the industry is now generating £230m a year in revenues. The average cable television subscriber is paying £23.32 a month including value added tax compared with £22.61 a year ago.

The number of cable television subscribers has risen in the past three months to April 1 from 908,018 to 963,132. A year ago the total was 642,377. The growth in cable companies' telephony business has been even faster: the number of homes receiving cable telephony services grew by nearly 500,000 to 872,573 over the year to April.

Some time in the next three months cable is expected to cross two important symbolic thresholds: cable television subscribers and the number of cable telephone lines should both pass the 1m mark.

In spite of this progress, the share prices of the few listed cable companies are languishing. Some, including TeleWest, are below their offer prices. The markets are waiting to see some more of the promise fulfilled before becoming more excited – and also to see some improvement in the two main problems facing the industry – "penetration" and "churn".

Cable penetration is the percentage of households subscribing compared with those that could (because the cable runs past them). The industry average has stuck stubbornly at between 21 per cent and 22 per cent for the past two years, even though subscriber numbers have continued to rise.

The related problem of "churn" – or subscribers who are disconnected – is more serious. Yesterday SBC admitted its annualised churn rate on television had reached 64 per cent last year, but had now been reduced. Last year for a time TeleWest had a churn rate of 48 per cent, although it has since been considerably reduced.

Overall the industry churn is almost certainly more than one third and it is clearly a problem that has to be tackled by better credit control, better marketing and better programmes.

"It is not good enough necessarily to say the more channels the better," says Mr Philippe Calteau, managing director of General Cable, the French-controlled cable operator which is sixth largest in the UK. "People don't know about them. We need more British channels."

Some are on the way. A channel has just been launched by SelecTV, featuring the independent producer's programmes such as *Birds of a Feather*. The Mirror group plans to launch Live TV, offering magazine programmes. And Associated Newspapers, publisher of the Daily Mail, plans to take Channel One, its 24-hour news channel, from London to other major regional centres, starting with Bristol and Bath.

The emergence of a clear industry leader in the shape of TeleWest, determined to establish a national brand for cable, is likely to speed up such programming initiatives.

The arrival of such powerful groupings, impatient to push ahead, is causing splits in the industry. TeleWest and Nynex have already reached an agreement to take programmes from British Sky Broadcasting, the satellite venture in which Pearson, owner of the Financial Times, has a substantial stake. BSkyB has more than 3m subscribers receiving programmes through satellite dishes, on more advantageous terms than the rest of the industry is likely to get.

The consolidation of the industry may help to solve its longer-term problems. Swindon, one of the most mature cable networks, has almost the highest penetration rate of 33.9 per cent – 22,448 subscribers out of 66,130 homes passed. This backs the industry claim that when their networks are complete and the roads are no longer being dug up, word of mouth will encourage new subscriptions.

In Leeds, Mr Bates of Bell Cablemedia says he has had "very very significant success" in reducing churn to 14 per cent. This has been achieved partly by being more choosy about who is taken on as a subscriber. But the company has also created "lifestyle packages" of services tailored to subscribers' needs, instead of making everyone pay for everything. As a result people in their 60s are offered programme packages that might interest them rather than cartoons.

"We've got our telephony churn down to 8 per cent. That's better than BT," says Mr Bates who believes there could be another three or four big cable deals within the next six months.

Jane Martinson and Chrystia Freeland on western fears about safety in former Soviet republics

Nuclear fault lines

When Leonid Kuchma, the Ukrainian president, promised last month to close the Chernobyl nuclear power station by the end of the decade, the European Union heralded the pledge as an important diplomatic breakthrough. For months Brussels had been withholding support for Ukraine's economic reform programme until Kiev promised to shut the plant.

The agreement underlined how atomic power has become a critical factor in negotiations over economic aid for eastern Europe following the explosion at one of Chernobyl's reactors – the world's worst nuclear accident – nine years ago.

Western governments have balked at Ukrainian requests for $4bn to shut the plant, but they are keen to make a contribution. Chernobyl is on the agenda of next week's meeting in Canada of the Group of Seven leading industrialised nations.

Of the 62 operating Soviet-designed reactors in eastern and central Europe, 25 are regarded by the International Atomic Energy Agency as particularly unsafe. Following the Chernobyl deal, there are growing fears about the former Soviet republic of Armenia, where preparations are under way to restart one of the two reactors at Medzamor this summer. Environmentalists say the power station is one of the most dangerous in the former Soviet Union.

The Armenian plant, 30km from the capital Yerevan, is 20 years old and built on an earthquake fault line. Although unscathed in the 1988 Armenian earthquake, public pressure in Armenia led to the closure of the two reactors in 1989.

Safety experts from the agency visited Medzamor in April this year. Their report raised a number of concerns over and above that of seismic risk, including the lack of trained managers, the inability to pay for new and spare parts and, particularly, the fragility of the main reactor vessel.

But the Armenian government is unsympathetic to western worries about the reactor's safety, arguing that its citizens need electricity to counter a severe energy crisis that has left them freezing in winter. "We know this reactor better than anyone else and we are more interested than anyone else in its safety," says Mr Suren Azatian, site manager at Medzamor. "I might be more sympathetic had anyone helped us over the past two years, but no-one, apart from the Russians, who have helped us a lot, has done anything."

Some westerners acknowledge that Armenia, suffering severe energy shortages because of economic blockades imposed by both Azerbaijan and Turkey, is in a difficult position. One agency official says: "The Armenians have little choice. There is a critical shortage of gas, oil and electricity and they can't afford the luxury of keeping two units switched off. There has to be a balance between what they can afford and what is ideal."

'No-one apart from the Russians, who have helped us a lot, has done anything'

In spite of early warnings that Armenia was determined to restart Medzamor, the industrialised countries of the west have offered little help. "There have been a lot of words from various G7 countries to Armenia not to open the plant," says Mr Mark Tomlinson, the European Bank for Reconstruction and Development director for Ukraine and Armenia. He adds: "But there has been virtually no assistance to develop alternative energy strategies."

Various plans have been put forward but only a proposed gas pipeline to Iran looks likely to come to fruition. Impoverished Armenia's longstanding conflict with oil-rich Azerbaijan has made western governments, eager to win lucrative Caspian sea oil contracts, reluctant to be identified too closely with Yerevan. "Interests in nuclear safety can be completely subordinated to other interests," says one senior western aid official.

Only Moscow, which, because of the blockade of land routes to Armenia, has been sending nuclear fuel and parts to Yerevan by air, has helped its traditional ally in the Transcaucasus.

Mr Vahan Papazian, the Armenian foreign minister, feels the west has to be provoked into action. "I have come to the conclusion that first we must start the reactor and then the west will help us," he says.

A similar calculation appeared to have been made in Ukraine, which restarted one of the reactors at Chernobyl after the accident, disregarding western objections. Ukraine's acquiescence in agreeing to close the entire complex comes at a high price.

In its efforts to ensure that the former Soviet Union's nuclear reactors are operated as safely as possible, Europe is faced with the need to come to terms with the political bardball many of the energy-starved former Soviet republics are learning to play. As the reopening of Medzamor later this summer is likely to underscore, it will not be enough simply to insist that the impoverished former members of the Soviet Union comply with the safety standards of prosperous western Europe.

OBSERVER

Kristol clear future?

■ If you don't immediately associate media mogul Rupert Murdoch's name with serious political analysis and argument, think again – maybe. Murdoch has been casting his predatory eye over the American conservative magazine scene for a while. But it is with a greenfield endeavour that he is poised to pounce. The Standard, its 48 pages published out of Washington DC every Monday, hits the news stands in the autumn.

Bill Kristol, a well-connected Republican strategist who is the new mag's editor and publisher, had already roped Murdoch in as a donor to a thinktank called Project for the Republican Future which he set up in November 1993.

The Republican Future proved nearer than anticipated, and Kristol is now chucking in the think-tank and turning to print – with backing from Murdoch in the region of $5m.

New Republic magazine's loss of influence among the conservative intelligentsia has been a factor in Kristol's favour, and its columnist Fred Barnes has been enticed aboard. Deputy editor is John Podhoretz, author of a scathing book about the Bush White House, and David Brooks has also quit the Wall Street Journal to join in the fun.

Meanwhile, Kristol reckons he is armed with the necessary guarantees of editorial independence. "When we attack powerful congressmen, Murdoch wants to be able to disavow any knowledge of our activities," he says cheerfully.

Bonding business

■ When ISMA, the Eurobond trade association and regulator, named its new chairman recently, there was an audible sigh of relief. For Michael Baring had been in line for the three year post.

Although Baring, formerly a director of Baring Securities and a cousin of Peter Baring, has actually done well for himself in the post-ING-rescue constellation, he resigned his seat on the ISMA board following the Barings collapse. At that point Rijnhard van Tets of ABN Amro was co-opted to the board to serve out Baring's remaining two-year term of office – and now to take on the chairmanship.

Despite the general impression of ISMA being an Anglo-Saxon preserve, six of the eight past chairmen have been continental European bankers. Van Tets, ABN Amro's board member for global investment banking, doesn't upset that pattern.

Moreover, the continentals are rather in vogue at the moment – what with Marcel Ospel poised to run Warburg after the Swiss Bank Corporation "merger" and Hessel Lindenbergh running Barings. With the Dutch in spending mode these days, the boys at Schroders, for instance, might be well advised to treat ISMA's chairman with some respect. Who knows, one day he could be their new boss.

Getting shirty

■ Staff of Warburg's Hong Kong office are now sporting an interesting T-shirt. On front, it reads: S.G.Warburg Asia 1972 - 1995. And on the back: Built by Germans, driven by Brits, jilted by Americans, dismantled by Swiss.

Post haste

■ An update to Observer's story last September concerning the Swiss army's dastardly intentions towards its flock of 30,000 carrier pigeons.

Do not underestimate the Swiss, worldbeating experts in referenda. The army's idea of disbanding its trusty troop of messengers has sections of the burghers in a flap. People want the squad enshrined in the constitution as a necessary service. These birds are cost effective, they argue, and jolly well camouflaged among their civilian brethren.

Under the outgoing system, 7,000 professional military birds are supplemented by as many as 23,000 privately owned fowl rented to the military for training exercises. People suggest a new law whereby all owners of carrier pigeons would be required to lend them to the army, with the costs split between the military and civil organisations.

This being Switzerland, the pigeon fanciers simply need to collect 100,000 signatures by November next year and the issue will be put to popular vote.

Up the wall

■ The German tourist is badly in need of a bit of good PR. But an ad run recently by Douwe Egberts, Sara Lee's Dutch subsidiary – in effect inviting spray-can-toting Germans on a jolly to London – does the breed anything but a good turn.

Der Spiegel, the German weekly, has been carrying a promotion for Douwe's Drum hand-rolled tobacco. It depicts a photomontage of a blank wall against the backdrop of Tower Bridge and explains:"Downtown London. There it is – a big, empty wall . . . Wanted, an idea for this wall."

Downtown? The building turns out to be in Camden, north of Regent's Park, but then this is not a geography quiz.

On offer for the best graffiti or mural notion is a week's trip to the UK capital during which the lucky winners will "transform" the brickwork – under the watchful eye of "professional artists".

Douwe Egberts assures Observer that "this is all absolutely legal" – ever so slightly missing the point.

The Financial Times

50 years ago

Tax evasion in France

Paris: The Government has decided to tighten still further the net it has been diligently drawing around prospective victims of the capital taxes as a result of a gap through which certain persons thought they could escape identifying the ownership of bank-notes and Treasury bills which must be exchanged before 15th June.

The method was to use bank-notes in hand or obtained through the sale of Treasury bonds to purchase Government or other bonds with the intention of selling a few days later and obtaining the proceeds in new notes. Bonds were excluded from the recent ordinance compelling registration or deposit with the banks of all bearer shares.

An ordinance promulgated today compels bankers and brokers to verify the register and hold at the disposal of fiscal agents the names and addresses of all persons for whose account they sell bonds on or off the market, under pain of heavy penalties up to a maximum fine equal to the net proceeds of the sale or purchase.

FINANCIAL TIMES
Friday June 9 1995

Agreement paves way for new legal authority

UK and China reach deal over Hong Kong courts

By Simon Holberton in Hong Kong

Britain and China are expected today to announce a landmark agreement on Hong Kong's legal system, paving the way for the creation of the colony's supreme legal authority after 1997.

The terms of the deal will this morning be put by Governor Chris Patten to his executive council, or cabinet, where no objection is expected.

The agreement will be widely welcomed in Hong Kong, although objections are expected from some sections of Hong Kong's legislature and legal profession, which remain suspicious of Britain's and China's motives. In general, however, business confidence will receive a boost from the deal.

For Britain, the agreement is welcome and follows a particularly difficult period for bilateral ties since Mr Patten's appointment in mid-1992.

Last night, British officials were cautious about predicting a thaw in relations, pointing out that Hong Kong's transition to Chinese rule in two years' time would remain a challenging exercise.

The court of final appeal will replace the judicial committee of the Privy Council as Hong Kong's highest appellate jurisdiction.

It is understood the two countries have agreed that the court shall come into force on July 1 1997, but that legislation enabling its creation will be presented to Hong Kong's legislature this month. The Privy Council will remain in use until the end of British rule.

China dropped its demands that an extra-legal "post-verdict remedial mechanism" be set up alongside the court to vet its judgments. British officials said Mr Patten was satisfied the court's jurisdiction would not be limited.

Britain has made a number of concessions. It has agreed to dissolve a 1991 agreement with China that the court be set up before Hong Kong's 1997 handover, while retaining an aspect of that deal which limited to one the number of judges from foreign common law jurisdictions that can sit on the five-judge court.

This compromise will provide ammunition for Mr Patten's critics who, scenting such a deal, have already accused Britain of selling out the rule of law in Hong Kong.

The possibility of a deal on the court was signalled earlier this week when Mr Qian Qichen, China's foreign minister, said Britain and China could work out an agreement on the court.

Hopes rise for pact between Israel and Syria

By Julian Ozanne in Jerusalem

Mr Warren Christopher, US secretary of state, arrived in Israel yesterday to begin what many believe will be his best chance yet of a breakthrough in peace talks between Israel and Syria.

Mr Christopher said it was a time of great opportunity for comprehensive peace as Israel and Syria were set to begin their most important negotiations in four years; Israel and the Palestinians were about to clinch the agreement for the second stage of their peace process; and Egypt and Israel would consolidate their relations at a summit in Cairo today.

"For the first time since the Madrid process began four years ago, there's been a framework for discussion of security issues reached between Israel and Syria," Mr Christopher said. "That's a very desirable step forward which will make it possible for military-to-military talks to begin before the end of the month, and on a serious and significant basis."

Commenting on today's summit between Mr Hosni Mubarak, Egypt's president, and Mr Yitzhak Rabin, the Israeli prime minister, Mr Christopher said: "I think that can be an important step forward, a new page between Egypt and Israel who have such a strong capacity to work together to help the peace process forward."

Mr Shimon Peres, Israeli foreign minister, said peace with Palestinians and Syria and warmer relations with Egypt were "three momentums moving together".

"We are beginning, apparently, very serious negotiations with a new party - the Syrian party, and we attach a great deal of importance to negotiations with the Syrians because this may be the last part of a complete peace", Mr Peres said.

Official state-owned Syrian newspapers welcomed Mr Christopher's visit and his efforts to bring peace with Israel.

Israeli officials said that the fundamental difference this time was that the US was convinced that Syria was genuinely ready to try to strike a deal within the next six months, despite the obstacles that remained.

On the Israeli-Palestinian peace process, efforts to conclude an agreement on Israeli troop redeployment in the occupied West Bank received a boost yesterday as a senior Palestinian official said an agreement was close.

Israel and the Palestinians earlier announced a breakthrough on the second component of an overall accord - the transfer of West Bank powers from Israel to Palestinian self-rule. The third and last part of negotiation concerns the framework for elections.

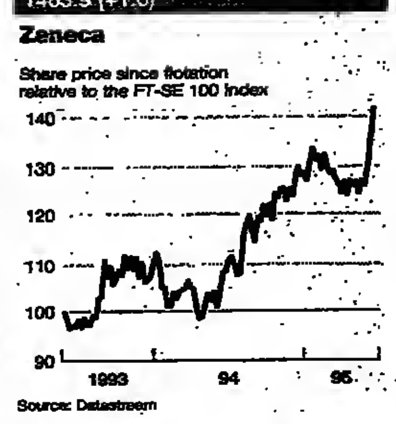
THE LEX COLUMN

GEC's big guns

Lord Weinstock, GEC's managing director, is like a rich man in a Rolls-Royce who rams a Mini to prevent it from stealing his parking space. The company's £835m ($1.3bn) bid for VSEL makes no sense looked at in isolation. Paying 20 times earnings for a business whose profits could fall off a cliff in three years seems crazy. However, GEC's bid is likely to stop rival British Aerospace from snatching the warship manufacturer from under its nose. Without VSEL, BAe will be smaller and financially weaker than it would have been; and therefore easier prey for GEC at some later date.

Lord Weinstock has shown the power of his cash hoard. BAe will be hard-pressed to raise its cash offer by the 35 per cent that would be needed to match GEC's, even with its innovative "trombone" rights issue under its belt. Meanwhile, fighting GEC with paper is likely to be self-defeating. The more shares BAe offers, the greater the risk that its own share price will collapse, which would in turn reduce the value of its offer.

GEC supporters point out that, even at 20 times earnings, acquiring VSEL would not be dilutive. This is because the group earns only around 5¼ per cent on its £3bn cash pile. However, that only goes to show that GEC should put its cash to a more productive use. An attractive option would be to buy its own shares; at around 15 times earnings, they look a real bargain compared with VSEL's. But GEC seems unlikely to do this, if only because its remaining cash mountain would come in handy if the government ever allows it to bid for BAe.



Zeneca

Three of the four rumours enveloping Zeneca were dispelled yesterday. The group is not planning an imminent acquisition of Fisons or Pharmacia, nor the immediate disposal of its non-drugs operations. The fourth possibility, a hostile bid for the company, remains a possibility. Zeneca is an attractive target: it boasts a strong pipeline of new drugs, and the existing portfolio is untroubled by impending patent expiries.

However, the expected price for a bid of about £12.50 per share values the company at 26 times earnings, far higher than recent deals. The community of those with adequately thick wallets is small. Moreover, few of these predators would be interested in acquiring the speciality chemicals and agrochemicals divisions. True, these could be resold; but the disposal price might not look attractive, because no potential buyers could emulate Zeneca's extraordinarily low tax base.

Zeneca is therefore more likely to become predator than prey. It may not be planning an imminent move, but that does not mean the status quo is defensible. The logic of grouping agrochemicals and specialities with medicines was always tenuous and their sale could raise more than £3bn. The proceeds could be used to boost Zeneca's drugs division whose size remains sub-optimal. Drugs companies need to launch products globally to receive an adequate return on their research and development: Zeneca lacks distribution in Germany, Italy and Japan. Scale for scale's sake is senseless, but the case for an acquisition or merger is compelling.

Italian referendum

Sunday's complex Italian referendum addresses several important themes, but there is one issue at the heart of the vote: the political future of former prime minister Mr Silvio Berlusconi. When Mr Berlusconi resigned last December, it was widely assumed to be only a matter of time before the media magnate clawed his way back into power. However, his position has been weakened by disastrous results in the regional elections.

A "yes" vote on the central question would mean Mr Berlusconi losing two of his three channels and with it the power to influence 45 per cent of Italy's television audience. This would probably bring an end to his leadership of the right-wing political bloc. October elections would then be unlikely. They might even be postponed until mid-1996. The Italian parliament would be reluctant to embark on an election in the first half of next year when the country holds the European Union presidency.

Even if Mr Berlusconi wins, his political future is far from assured. Italy's constitutional court is pushing for media ownership changes. Meanwhile Mr Berlusconi's Fininvest is under the scrutiny of the magistrates. The technocratic administration of prime minister Mr Lamberto Dini could therefore have longer to run, providing time to finalise an anti-inflationary budget and a more rational privatisation programme. The financial markets should welcome such a move, even if it adds little certainty to the long-term future.

Gas regulation

Yesterday's consultative document from Ofgas throws wide open the pricing regime for British Gas's transportation business. Gas's core monopoly business accounts for more than half its profits. It is the company's cash cow, as the rest of its business is opened up to competition. But the widening of the debate to include the concept, as well as the calculation, of the price cap regime is not necessarily bad news for shareholders.

The consultative document suggests that the rate of return on new investments of 6½ to 7½ per cent envisaged in the Monopolies and Mergers Commission's 1993 report may be too high for a mature business with relatively low investment needs and also that the company may have overvalued its assets. So a tightening of the current regime seems on the cards.

In questioning the validity of the price cap regime, Ofgas points out the difficulties in getting accurate information. The gas regulator is worried about the danger of repeating the mistakes of the electricity regulator, who is currently reviewing his tax pricing regime. Given the uncertainty in the rapidly changing gas market, the price cap regime could be as risky for the company as for the regulator. If Gas made excess profits, political pressure to re-think the pricing formula before the end of its life would be great. But the standard price cap still has the proven advantage of providing strong incentives for efficiency.

Additional Lex comment on Pilkington, Page 20

Aid package for Japanese banks disappoints markets

By Gerard Baker in Tokyo

The Japanese government yesterday unveiled a long-awaited package of measures aimed at providing assistance to the beleaguered banking system, but the initiative was well short of a wholesale rescue plan and disappointed financial markets.

The measures announced by Mr Masayoshi Takemura, finance minister, were a response to calls for action to help banks lift the burden of bad loans they carry as a result of some imprudent lending in the property boom and bust of the last decade.

Banks had hoped the proposals would include assistance, in the form of direct funding or tax relief, to help them eliminate problem loans. But most of the measures were merely minor modifications of existing policy.

The main element of the package was a public commitment that the Bank of Japan would provide emergency funding, as and when necessary, to troubled banks, a policy already enshrined in the central bank's constitution.

Other measures included efforts to increase the funding by the banks themselves of the Deposit Insurance Corporation, the main vehicle for providing compensation to depositors in collapsed banks, tougher requirements for bad loan disclosures and further encouragement of mergers among troubled banks.

Japan's banks are estimated by the government to have at least Y40,000bn ($474bn) in bad debts, about 6 per cent of their total lending. Some smaller institutions are thought to be on the verge of collapse.

Mr Takemura insisted the efforts would be effective. "We put together fairly bold measures for the disposal of bad loans," he said. "I think we can overcome the problem."

Most analysts disagreed. "This is deeply disappointing, deeply depressing," said Mr David Threadgold, financial sector analyst at BZW in Tokyo. "All it says is we will continue doing what we have been doing and we hope things get better."

The use of public funds to rescue failed banks is highly unpopular among Japanese taxpayers. Many regard the banks' problems as the product of their own incompetence or venality.

The finance ministry did its best to allay public fears by stating several conditions for the use of such funds, including the dismissal of the existing management of a rescued bank and the use of funds from other financial institutions.

Looser money ruled out as a cure, Page 4

EU single currency

Continued from Page 1

tions, which had no economic justification, damaged economies and job prospects. Such turbulence could increase in today's global financial markets. Without Emu, exchange rate uncertainty and waves of speculation would dominate Europe's currency scene.

Devaluations would again be used as instruments of economic policy and the disciplinary effect of the EMS rules and the Maastricht criteria on economic convergence would disappear.

GEC's bid for VSEL

Continued from Page 1

bid again was overruled by Mr Michael Heseltine, UK trade and industry secretary.

GEC's higher than expected bid was seen as an attempt to recapture the initiative from BAe. BAe's shares closed 14p lower at 527p, cutting the value of its share offer. GEC shares closed 2p down at 322p.

BAe has tax losses built up in other parts of its business, which it could set against future VSEL profits, while GEC has no such advantages. Analysts have estimated that BAe could afford to pay £2.50 a share more for VSEL than GEC as a result.

BAe has built up its bid funds with a rights issue and could well return with a higher offer if it felt that it was justified.

"On any rational basis, our tax advantages mean that we can afford to pay more than GEC for this business," one BAe adviser said. "The question is do we want to?"

Some stockmarket analysts accept that some dilution of earnings as a result of paying a high price for VSEL would be justified for either company given the strategic importance of the deal.

GEC has until July 6 to post its offer document for VSEL to shareholders, after which the bid must be resolved within 60 days.

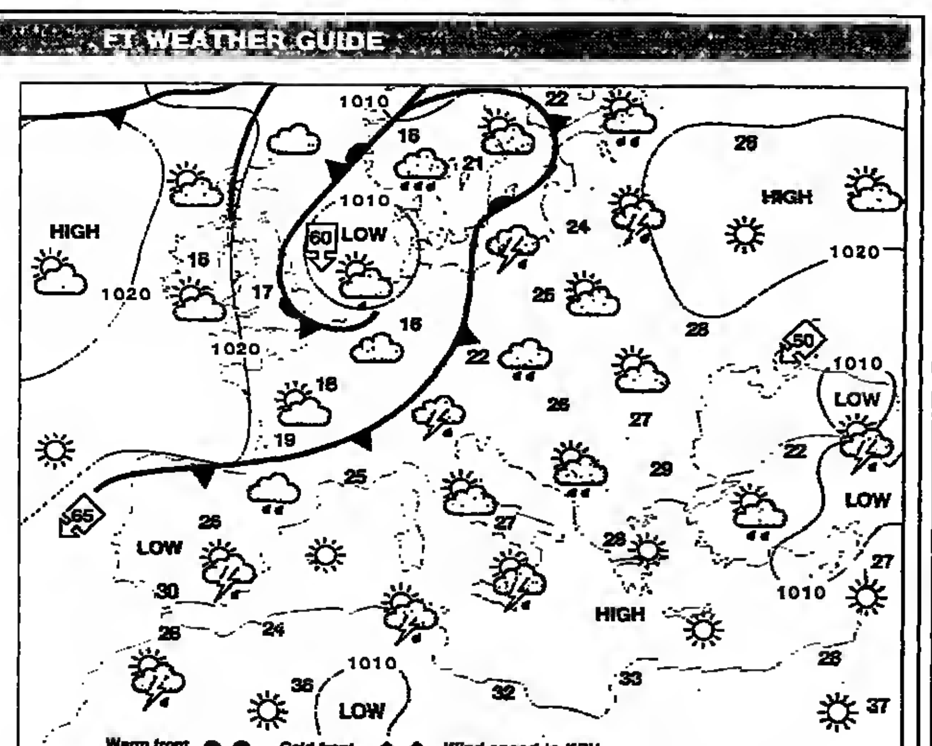
FT WEATHER GUIDE

Europe today

A small depression will deepen over the North Sea, giving a lot of cloud, rain and showers over southern Norway, eastern England and most of the Low Countries. Winds in coastal regions near the depression will increase to fresh or strong. The north-westerly flow will keep temperatures in north-west Europe below seasonal levels, from 12C to 15C. A wavering front crossing central Europe will give rain and thunder from Poland and over Switzerland to north-east Spain. Eastern Europe will have sunny periods and showers with maximum temperatures of 25C.

Five-day forecast

Conditions in the UK will improve as a weakening depression moves north-east. Showers will decrease and there will be sunny spells. The Low Countries, most of Scandinavia and eastern Europe will remain showery. Temperatures in north-west Europe will stay below seasonal levels. During the weekend, high pressure near south-east Europe will produce sunny skies with isolated thunder showers.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

Maximum Celsius																	
			Beijing	fair	30	Caracas	cloudy	30	Faro	fair	24	Madrid	thund	26	Rangoon	cloudy	32
			Belfast	cloudy	17	Cardiff	fair	17	Frankfurt	shower	19	Majorca	fair	25	Reykjavik	fair	12
Abu Dhabi	sun	41	Belgrade	thund	26	Casablanca	fair	23	Geneva	shower	21	Malta	fair	28	Rio	fair	28
Accra	thund	31	Berlin	shower	20	Chicago	cloudy	24	Gibraltar	fair	26	Manchester	cloudy	14	Rome	sun	26
Algiers	shower	23	Bermuda	cloudy	28	Cologne	thund	17	Glasgow	fair	17	Manila	cloudy	33	S. Frsco	fair	18
Amsterdam	shower	13	Bogota	cloudy	19	Dakar	sun	28	Hamburg	thund	16	Melbourne	rain	19	Seoul	fair	26
Athens	fair	28	Bombay	fair	34	Dallas	fair	36	Helsinki	shower	23	Mexico City	fair	28	Singapore	cloudy	33
Atlanta	fair	36	Brussels	shower	13	Delhi	fair	37	Hong Kong	shower	29	Miami	sun	33	Stockholm	fair	21
B. Aires	shower	22	Budapest	thund	24	Dubai	sun	41	Honolulu	cloudy	31	Milan	shower	22	Strasbourg	shower	19
B.ham	cloudy	16	C.hagen	thund	16	Dublin	cloudy	18	Istanbul	fair	26	Montreal	fair	22	Sydney	fair	22
Bangkok	shower	35	Cairo	sun	33	Dubrovnik	fair	25	Jakarta	shower	32	Moscow	fair	27	Tangier	sun	23
Barcelona	thund	22	Cape Town	rain	17	Edinburgh	cloudy	15	Jersey	fair	13	Munich	rain	19	Tel Aviv	sun	29
									Karachi	shower	37	Nairobi	fair	25	Tokyo	shower	28
									Kuwait	sun	44	Naples	sun	27	Toronto	fair	24
									L. Angeles	sun	21	Nassau	cloudy	32	Vancouver	fair	21
									Las Palmas	fair	25	New York	fair	26	Venice	cloudy	24
									Lima	cloudy	23	Nice	fair	24	Vienna	thund	25
									Lisbon	fair	25	Nicosia	sun	31	Warsaw	thund	26
									London	shower	17	Oslo	rain	17	Washington	sun	30
									Luxbourg	shower	15	Paris	cloudy	18	Wellington	fair	12
									Lyon	shower	20	Perth	shower	18	Winnipeg	fair	22
									Madeira	fair	22	Prague	shower	21	Zurich	shower	17

RECRUITMENT

Robert Taylor examines whether it is possible to talk about the emergence of an international employment market

Myth and reality of labour in the global economy

It was Karl Marx and Friedrich Engels in the Communist Manifesto of 1848 who first coined the stirring phrase "workers of the world unite". But is it possible to talk realistically about global employment today?

It has certainly grown fashionable to point to the rapid rise of an integrated global economy. On the money markets this makes sense. Computer technology and advanced telecommunications combined with deregulation has globalised international finance and made capital highly mobile.

However, the evidence is far less convincing when it is suggested employment is heading in the same global direction, despite mounting fears among workers in developed countries that their jobs are about to be undercut by cheap competitive labour from the south.

Indeed, in a fascinating article in the latest issue of Daedelus, the magazine of the American Academy of Arts and Sciences*, Vincent Cable from Britain's Royal Institute of International Affairs points out that "globalisation of labour was more advanced in earlier generations than it is today". He reminds us just how unrestricted the pattern of world employment was from the final decades of the last century up to the outbreak of the first world war. In every year from 1880 to 1913 between 600,000 and 1.5m Europeans crossed the Atlantic in search of work and a new life to the countries of north and south America.

This was, Cable maintains, a much greater proportion of the population of the host or originating countries than the volume of migration we are witnessing in the 1990s from poor to rich countries. Moreover, both China and India, which were large exporters of people in the past, are no longer so today.

"The decline in the importance of mass labour migration as a global phenomenon is even more striking when we consider the potential for migration as represented by the difference in living standards and life opportunities between rich and poor countries is now so mneh greater than a century ago," explains Cable.

He accepts there is illegal immigration from central and south America and China into the United States, as well as a rise in the number of "asylum seekers" entering Germany and "semi-official" migration from south-east Asia to Japan, and that this might suggest strict state controls on migration flows are powerless in the face of strong market forces.

But Cable maintains the trend in most countries is for governments to strengthen, not weaken, restrictions on the movement of labour across their frontiers, pointing out that the North American Free Trade Agreement has tightened up and not relaxed cross-border employment movements, while the Gatt negotiations mostly excluded free trade in services that involved labour migration. "Controls over migration (to the extent they are successful) could be said to represent a powerful brake by the nation-state on globalising forces," writes Cable. But he admits this assertion needs to be qualified by two important caveats.

First, "significant and distinctive minorities" have grown up recently in the labour markets of Germany, Scandinavia, France, the Gulf states and Japan. Second, labour migration restrictions used by governments apply "overwhelmingly to the unskilled and unqualified".

People looking for a job across national borders who already have a good income or useful professional qualifications that employers need, such as symbolic analysts – the global "new community" highlighted by Robert Reich, President Clinton's labour secretary, in his influential book The Work of Nations – are exceptional because of their obvious ability to succeed in finding employment in a genuinely high skilled and international labour market. Cable agrees that "national economic sovereignty is being eroded" in the face of global pressures, but this is happening only "slowly and differentially".

Sweeping talk of globalisation belies the detailed variety of the employment scene between one country and another

Moreover, as the European Union and, to a lesser extent, the US indicate, labour migration control in an increasingly interdependent world economy enables governments in high wage countries to protect the real pay of some segments of their own workforces from external competition, especially in the non-traded services sector.

It is also clear that strategic coalitions of workers and national businesses can still combine effectively against what they see as the threat of globalisation in sectors such as agriculture, steel and textiles, where Cable argues there is an "active use of anti-dumping measures to restrict unfair, low-cost competition". Indeed, Cable argues, the "inexorable advance of globalisation" remains "fragile and reversible", and without strong global (and regional) roles it can be rolled back. In his opinion, "global economic governance – the co-operative structures within which nation-states have to operate in a globalised economy – hangs somewhat precariously by threads of common understanding. If they snap, we could see the resurrection rather than the death of the nation-state".

But national differences in employment markets remain strong even inside the European Union. The latest annual report from the European network for small and medium-sized enterprises† highlights the wide diversity between workforces across western Europe.

Temporary work – defined as working on a contract with shorter than standard duration of hours – was carried out by 10 per cent of women and 7 per cent of men in 1991 in the EU labour force. However in Spain, 22 per cent of men and 28 per cent of women were employed in temporary work, while next door in Portugal the proportions were 9 per cent and 18 per cent respectively. In Italy, only 3 per cent of men and 8 per cent of women were employed in temporary work. The fastest growth in temporary employment was in France where it rose from 3 per cent for both men and women in 1983 to 7 per cent for men and 10 per cent for women eight years later.

Significant differences are also apparent in the age distribution of the workforce between EU states. While in Finland and Denmark as many as three in every four workers are aged 26 to 49, in the Netherlands nearly a third of workers are under the age of 24, with half of them employed in the retail sector, hotels and catering.

Compare this with the Swedish labour market, where a third to two-fifths of the workforce in all enterprises are aged 35 to 49. But in that country, smaller companies now have a highest density of young workers employed, with one in five of the 16 to 25-year-old workers holding jobs in enterprises employing fewer than 99 employees.

All this shows that sweeping talk of globalisation belies the detailed variety of the employment scene between one country and another. The tenacity of custom and practice in employment are too easily ignored. Global labour remains as much a chimera as it did at the time of the Communist Manifesto.

**Daedelus Vol 124 No 2 from 136 Irving Street, Cambridge, Massachusetts 02138 $7.95. †Observatory Report from EIMI, PO Box 7001, 2701 AA, Zoetermeer, The Netherlands.*

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▪ To be a successful candidate, you should be a qualified accountant, who will have gained senior financial management experience, which will include treasury and investor relations. The ability to think strategically is a pre-requisite and previous experience of acquisitions/disposals would be advantageous. Above all else, you must demonstrate a mature approach in order to interact effectively at board level and moreover be of the calibre for inclusion in the company's succession plans.

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• ***Please send a summary of how you match this appointment with your curriculum vitae and salary details, to Peter Dell, Ernst & Young Management Resourcing, Rolls House, 7 Rolls Buildings, Fetter Lane, London EC4A 1NH, quoting reference PD639.***

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SYSTEMS ACCOUNTANT

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THE GROUP

Our client, Coca-Cola Middle East is a major division of The Coca-Cola Company established 109 years ago and now the world's most powerful trademark and only truly global soft drinks production and distribution system.

THE OPPORTUNITY

An excellent opportunity exists for a highly motivated and enthusiastic finance professional to take up this key management position, heading up a task force of bilingual/Arabic speaking individuals to establish accounting controls at bottling level throughout the Middle East. You will also assume accounting and budgetary control for all bottling operations managed directly by Coca-Cola Middle East and carry out audits at each operation as well as ad hoc assignments.

THE CANDIDATE

The successful candidate will be a young qualified accountant with at least 2 years post qualification experience. You should be able to demonstrate a positive record of achievement, possess a high level of motivation and commitment and be willing to spend at least 50% of your time in the Middle East.

If you are interested in this opportunity, please write in confidence to Jeff Price at ABPM, 9 Bailey Lane, Sheffield S1 4EG, enclosing your CV with present remuneration, day and home telephone numbers.

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Controller of Finance

Chandlers Ford, Hants | **£40,000 + Bonus + Car**

▪ *Alldays are the leading UK operator of multi site convenience stores. The Company has an annual turnover of over £200m, produces substantial profits, and forms the retail division of Watson & Philip plc, a quoted company. Alldays' business has expanded rapidly, with the store network doubling within the last eighteen months to its current level of over 400 sites. Substantial growth is planned to continue for the foreseeable future.*

▪ *This rapid growth has led to the need to strengthen the finance function and recruit an experienced Controller of Finance. Reporting to the Finance Director, the Controller will take responsibility for the day to day running of the finance operation with 70 staff, group reporting and preparation of management and statutory accounts. Key aspects of the role will be to work closely with the operational managers to develop the management information reports and systems and to be an effective contributor to the Company's Executive Committee.*

▪ *Candidates should be qualified accountants in the age range 33-38, who are computer literate – ideally with implementation experience, have proven staff management skills and experience of operating at a senior level within a sizeable retail environment.*

▪ *This appointment offers an exciting opportunity for an able individual to join a fast growing business within an expanding group which may lead to further career opportunities.*

▪ ***A relocation package will be available where appropriate.***

▪ ***Please send your curriculum vitae, including current remuneration details, to Carrie Andrews at Ernst & Young Management Resourcing, Rolls House, 7 Rolls Buildings, Fetter Lane, London EC4A 1NH, quoting reference: CA643.***

ERNST & YOUNG

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Group Tax Controller

A rare opportunity for a talented and ambitious tax specialist to join one of the UK's most respected and successful plcs with global brands, worldwide manufacturing and sales of over £2 billion. Stimulating remit focusing on international tax planning with genuine strategic involvement and real scope for career progression.

THE ROLE

- Supporting the Head of Group Tax in providing a first-class tax advisory service, focused on the needs of the business, to the Group FD and senior line management.
- Evaluating and recommending strategies to optimise tax positions in diverse international jurisdictions, through Head Office analysis and frequent overseas visits.
- Executing a variety of ad-hoc tasks to support worldwide corporate development activity, including M&A and disposals work.

THE QUALIFICATIONS

- Ambitious and committed tax professional, aged 35+, with a high degree of technical UK tax expertise gained at the centre of an international manufacturing business ideally with US operations. Language skills advantageous.
- Team player with outstanding analytical ability and the interpersonal skills and desire to comprehend and influence a complex international strategy.
- Hard-working, diligent and resourceful negotiator with a sense of humour. Able to progress further.

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Spencer Stuart

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London W2 2ED

UK Finance Director

Major Retail Organisation

£90,000 + Bonus | **London**

Exciting opportunity for ambitious and experienced finance professional to play full commercial role in growth and development of UK operation of British retailing group.

THE COMPANY

- Major British retail group. Well structured, with sales of over £1 billion worldwide, 15,000 employees.
- Worldwide presence.
- UK operation comprises two divisions with combined turnover £400 million through 600 stores.

THE POSITION

- Fully responsible for total financial and accounting functions for UK operations. Advise on projects and acquisitions.
- Contribute to overall development and expansion of UK business. Report to Chief Executive.
- Control accounting team of 100. Develop quality of staff and systems.

QUALIFICATIONS

- Bright, commercially minded finance professional with good technical skills. Qualified accountant; at least 10 years' post qualification experience.
- Mature Finance Director or Financial Controller from service industry, ideally retailing. Tough, articulate.
- Decisive, with flexible outlook. Ambitious and commercial. Stature to make significant impact on business.

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Financial Controller

London

£40,000 p.a. Plus Bonus, Car and Benefits

Our client is a rapidly growing and profitable market leader within one of the most dynamic industries of the 1990's. Future business prospects are exceptional.

As a result of internal promotions this exciting opportunity has become available. Heading a team of 22 you will be responsible for the day-to-day financial operations of the business.

Specific responsibilities include:

- All aspects of periodic reporting.
- Development, implementation and continual enhancement of all financial controls, policies and processes, where possible in advance of the needs of the business.
- Management of the cash base.
- A variety of cross functional projects (many associated with the growth of the business) requiring a financial input.

You will be a Qualified Accountant (most likely ACA) ideally aged 30-40 years old, with experience of a well-disciplined growth environment.

Specific skills include:

- Strong leadership skills with the easy ability to develop and motivate staff.
- A high level of energy and enthusiasm, able to respond positively to constant change and pressure.
- Well-developed and commercially orientated communication and presentation skills, able to build effective working relationships at all levels and across all functions.

Previous experience of capital expenditure control and inventory management would be ideal. An affinity with computerised systems is essential with any experience of significant systems development and implementation being highly desirable.

To explore this exceptional opportunity further you should write to Karen Wilson at Hoggett Bowers, 7-9 Bream's Buildings, Chancery Lane, London EC4A 1DY enclosing a recent CV and a note of current salary quoting Ref: WKW/10142/FT.

Hoggett Bowers
EXECUTIVE SEARCH AND SELECTION

FINANCIAL ANALYST

Budgeting, forecasting and performance evaluation for a global insurance group
Package c.£40K • City base

As a direct result of promotion, this global insurance group is seeking to strengthen a small, highly regarded team of financial analysts responsible to the main board for budgeting and forecasting. The team's remit involves reviewing, in conjunction with local management, the plans of operating units worldwide and drawing together the group budget, monitoring performance and re-forecasting where necessary as well as providing informed analysis, commentary and interpretation at Chief Executive level. Another vital area of work is the assessment of major capital expenditure projects throughout the organisation.

To succeed in a demanding environment that involves senior level business and financial analysis in equal measure, our client is seeking the commitment of a flexible professional who can offer proven analytical, planning, organisational and team skills, a high level of computer literacy, the flair for influencing through well reasoned argument and presenting sometimes complex concepts concisely, as well as the ability to distinguish between real rather than apparent issues. Whilst specific background is less important - insurance, accountancy, financial services or relevant business consultancy (either internal or external) are most likely - a relevant professional qualification is regarded as essential.

In return, a package worth around £40K is for negotiation, comprising salary, profit share, non-contributory pension and other worthwhile benefits. In addition, success in this very visible role could lead to senior level management opportunity elsewhere in the group in the medium term.

Please write, with full CV, to Alun D Spillman, Director, Ref: 7047, Versutus Advertising, The Old Sorting Office, Rosemount Avenue, West Byfleet, Surrey KT14 6LA. Your details will be sent solely to our client - in a covering letter, please state any company to which your application should not be sent.

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Business Development Manager

Surrey | **c.£60,000**

The Company

Well established UK group engaged in the manufacture and supply of electronic components to the aerospace industry with significant long term contracts in North America and Europe.

The Role

The group is committed to substantial 'horizontal' and 'vertical' growth to benefit from greater economies of scale and increase market share throughout the industry. The role will report directly to the board, be involved in identifying target companies, due diligence and post acquisition reviews to ensure that all international operations are integrated successfully. It is expected that this will lead to a group board appointment once expansion targets have been met.

The Candidate

Individuals need to demonstrate a successful track record in mergers and acquisitions, ideally with experience in manufacturing, gained either in industry or an accounting practice. Candidates are likely to hold a recognised accounting qualification and be clear communicators with an appreciation of the problems associated with a growing finance function servicing a multi-sited international group.

Please send a full CV quoting reference FT 8/6/95 to Gary Johnson or Caroline Brooks, Douglas Llambias Associates, 410 Strand, London WC2R 0NS. Fax: 0171 379 4820.

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Thames Water

Financial Controller

Major Construction Project

Turkey

to £50,000
Plus Expatriate Package

Thames Water International, part of the Thames Water plc Group of companies, is at the forefront of the water services industry internationally. Their Turkish joint venture, Izmit Su AS, is in the final stages of negotiating an $860 million contract to construct, and then operate for 15 years, a major new water treatment and supply facility. They now wish to appoint the project Financial Controller who will take up his post in July or August.

You are a qualified accountant, with a track record of systems design and implementation gained at the sharp end of high value construction projects overseas. You will be used to working in a multi-cultural environment, to meeting deadlines, and have previous experience of international project financing agencies and reporting requirements. Working closely with the General Manager, you will ensure effective cash control and produce timely and accurate management and financial accounts and reports for the joint venture partners. Terms for this post reflect the importance of the role and Thames Water's commitment to excellence. They include a tax free salary, performance related bonus and a full expatriate benefits package.

Interested candidates should forward a detailed CV in confidence to Richard Roberts, Hoggett Bowers, 7 - 9 Bream's Buildings, London EC4A 1DY, 0171 430 9000, Fax: 0171 405 5995, quoting Ref: HRR/10183/FT.

Hoggett Bowers
EXECUTIVE SEARCH AND SELECTION

INTERNATIONAL AUDIT

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Following the promotion of members of the team to line finance roles, an opportunity now exists for a high-calibre qualified accountant with at least 3 years' pqe, some of which should have been gained in an operational role, to join our small central team.

Your brief will be to undertake worldwide high level financial and operational reviews across a range of business and functions (including production, distribution and marketing) and gain acceptance of your recommendations to improve business processes. In addition, you will undertake a variety of ad hoc assignments.

You will be required to demonstrate strong influencing and interpersonal skills as well as the commercial acumen and cultural sensitivity to operate effectively in a truly international environment. In addition to your first-class technical and analytical skills, you will also require strong written and verbal communication abilities. Candidates with linguistic skills, particularly Spanish, will be preferred.

This role offers an excellent opportunity to join the senior financial team of a major plc, undertake significant international travel and build a long term career in a successful and progressive organisation.

Interested candidates should write in confidence, enclosing a resume together with current remuneration details, marking the envelope G1A/06 to our advising consultants: Chryssaphes Flammiger Associates, Bechtel House, 245 Hammersmith Road, London W6 8DP.

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THE ROLE

- Supporting the Head of Group Tax in providing a first-class tax advisory service, focused on the needs of the business, to the Group FD and senior line management.
- Evaluating and recommending strategies to optimise tax positions in diverse international jurisdictions, through Head Office analysis and frequent overseas visits.
- Executing a variety of ad-hoc tasks to support worldwide corporate development activity, including M&A and disposals work.

THE QUALIFICATIONS

- Ambitious and committed tax professional, aged 35+, with a high degree of technical UK tax expertise gained at the centre of an international manufacturing business ideally with US operations. Language skills advantageous.
- Team player with outstanding analytical ability and the interpersonal skills and desire to comprehend and influence a complex international strategy.
- Hard-working, diligent and resourceful negotiator with a sense of humour. Able to progress further.

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Qualified Accountant

up to £36,681

This is a rare opportunity for a finance professional to enter a rapidly growing sector (no housing knowledge required) and perform an intellectually challenging job involving complex policy and problem solving, analysis and performance management.

Articulate and persuasive, you should be computer literate and your technical credentials must be balanced by the skill to translate and communicate complex detail into user-friendly explanations/systems.

The job is project based (no direct line management responsibility) and your core brief will be to grasp complex role both internally and externally... systems/interactions and create regulatory strategies which are workable in practice. Your individual portfolio of policy projects will provide you with both scope and flexibility to set your own agenda. You will be exposed to a broad range of professionals throughout Government, Housing Associations, Trade Bodies and Consultancies and you must prove a powerful negotiator on the Corporation's behalf.

A rare chance to fast forward your finance career into Regulation.

Salary in the range £31,917 - £36,681 (incl.) + benefits.

For further information, please contact The Personnel Officer, The Housing Corporation, 149 Tottenham Court Road, London W1P 0BN. Tel 0171 388 9844 (24 hour answerphone). Please quote reference: RI. Closing date 29th June 1995.

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Positions

- Report to the Divisional Managing Director and assume full responsibility for the financial management of an autonomous business.
- Provide strong financial advice to operational managers and play a major role in the formulation of commercial strategy.
- Develop management information systems and controls to support a growing business.

Candidates

- Strong technical ability combined with a high degree of business acumen and a track record of achievement.
- A proactive and innovative approach with the energy and interpersonal skills to succeed in a fast moving and highly competitive business environment.
- A positive "can do" attitude with a strong bottom line focus and a desire to succeed.
- Qualified Accountant, aged 30-40.

Career prospects are truly exceptional for the right individuals with future opportunities for progression that are unlikely to be paralleled elsewhere. To express an interest please write to Stephen Banks ACMA, Michael Page Finance, Clarendon House, 81 Mosley Street, Manchester M2 3LQ, quoting reference 237519.

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Group Treasurer

Berks

c£50,000 pa Plus Car and Sub. Benefits

Our client is a well-known name not only in the UK but also in the US and Europe. This is a unique opportunity to join a young, enthusiastic and high calibre team.

Reporting to the Group Finance Director, the Group Treasurer has a high profile role both internally and externally. You will co-ordinate all aspects of treasury strategy and policy management across the Group, as well as the mainstream Treasury management activities.

Specific responsibilities will include:

- Consolidation of all international treasury activities, which will include planning and implementation of changes in the US and Europe.
- Continuous review of the Group's borrowing facility and participation in the development of the Group's financial structure.
- Control of cash flow forecast and management of currency exposure.

You will be a graduate, MCT with an accounting background (an Accounting qualification would be ideal) with a minimum of 5 years experience within the Treasury function of a complex international group.

Additionally you must evidence:

- Strong negotiation skills and extensive experience of managing relationships with key banks.
- A hands-on, flexible approach as well as excellent communication, interpersonal and presentation skills.
- Well-developed analytical skills as well as the enthusiasm and energy to deal with a constantly changing environment.

To pursue this exciting opportunity you should write to Karen Wilson at Hoggett Bowers, 7-9 Bream's Buildings, Chancery Lane, London EC4A 1DY enclosing a recent CV and a note of current salary quoting Ref WKW/10176/FT.

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- £200 millioo turnover division, part of a £2 billion turnover group engaged in diverse manufacturing and engineering activities.
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- Positioo will appeal to candidates with natural general management abilities who see their careers developing outside of mainstream finance.
- Excellent communication skills, a persuasive personality and exceptional levels of drive, allied to commonsense and self reliance.

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ASSISTANT DIRECTOR–AUDIT

City **£45,000 + car + banking benefits**

Our client is a major blue chip and internationally respected merchant banking and financial services Group, based in the City, with offices and clients spanning many parts of the world. The Group's diversity has ensured continued strength and they now seek to make the appointment of an Assistant Director- Audit.

Responsible to the Head of Department, who in turn reports to main board Directors and the Audit Committee, this high profile role will focus on the financial control and operational issues with specific emphasis on providing positive solutions to improve business performance across many aspects of the organisation. These duties will inevitably require working with all levels of management, developing relationships, managing the work of other qualified members of the audit team and ad-hoc projects and investigations.

Ideal candidates will be qualified accountants, aged mid 30's and self starters, probably seeking a positive move from a top firm within the profession. Sound technical ability, communication and presentation skills are paramount in being able to make positive contributions to achieve results and to develop a career with this well known Group.

Please write enclosing full curriculum vitae, quoting Ref 638 to
Philip Cartwright FCMA, Cartwright Consulting, 3 Wigmore Place, Cavendish Square, London W1H 9DB. Tel: 0171 371 9476 Fax: 0171 371 9478

CARTWRIGHT CONSULTING
FINANCIAL SELECTION & SEARCH

KPMG

Financial Controller

Salary c.US$ 75,000 + expatriate benefits ***Gulf based***

Our client is an international engineenng and construction group operating mainly in the Middle East, but with a London office. The Group has an extensive and consistent performance record since its formation in the 1950's. It has a cunent turnover in excess of US$80m and is profitable. It has recently won several major new projects, pnncipally involving civil engineering works. They now wish to recruit a Financial Controller to be based in the Gulf.

This position will report to the Senior Vice President Operations and the Financial Director. Specific responsibilities will include:

- Preparation of Financial Statements.
- Co-ordinating all operations from a financial point of view.
- Detailed monthly project cost reports.
- Maintenance of communication lines between operational control and UK.
- Inventory control.
- Payroll.
- Managing a team of circa 20 staff.

Acceptable candidates will be qualified accountants, computer literate and aged 35-45. Experienced in turnkey operations in the Middle East and in operating with a multi-cultural team, candidates will possess a proven ability to gather information from non-financial personnel. The ability to interact positively with all levels of staff is essential.

This is a newly established position which offers considerable scope for further career progression. Interested candidates should write to Tony Saw, enclosing full career and salary details, and quoting Ref. no. FT0806, at KPMG Selection & Search, 1–2 Dorset Rise, Blackfriars, London EC4Y 8AE.

Previous applicants need not apply.

KPMG Selection & Search

GROUP
FINANCIAL DIRECTOR

Up to £40,000 + Car + benefits South West

Our client is a privately owned Group of companies with an established track record of success in its region/. As part of the process of redefinition of responsibilities of its main board, the Groop is seeking to strengthen its financial management function.

An experienced aod successful accountant is needed to provide leadership and direction to the accounts team and to augment the commercial acumen of the business. The Group already has extensive management information systems for its constituent companies and wishes to develop these on a continuous basis.

The successful candidate is likely to be in the 35 to 45 year age range. He or she is likely to be a qualified accountant with some formal management training, holding a senior administrative management role in a medium or large commercial organisation and be seeking an exciting career move.

Experience of the construction industry would be an advantage together with dealing with treasury activities. The candidate must be an effective communicator, possess demonstrable administrative skill as well as strong technical and commercial ability.

An attractive reward package including relocation expenses is on offer to the right candidate who can fill this challenging role.

Please reply in confidence enclosing full details to -

Reference FT/FD 06/95

Mentor Management Services
2 Springfields
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MENTOR MANAGEMENT SERVICES

FINANCIAL CONTROLLER

London **£40,000 + bonus + car**

Our client is an exciting Industrial Group with a superb performance record achieving year on year growth both organically and by acquisition. The Group holds dominant positions in the markets it serves and has tripled the level of activity (currently approaching £200m) over the last four years, aiming to continue such growth and development through its base of strong core businesses.

As a direct result of these aubstantial achievements a Financial Controller is now sought who, based at the Corporate Headquarters with the small but high calibre central management team, will provide a comprehensive interface between the main board and a portfolio of decentralised subsidiaries. The role will focus upon strengthening financial controls, upgrading the quality of management information, providing financial and planning analysis along with assisting the group in its business development.

Candidates, aged mid 30's, should be qualified accountants with strong commercial acumen and industrial experience combined with excellent inter-personal skills. Pragmatic and decisive abilities coupled with enthusiasm are vital as are a desire to take on this tough but highly rewarding role that holds first class potential for career development.

Please write enclosing full curriculum vitae quoting ref 637 to
Philip Cartwright FCMA, Cartwright Consulting, 3 Wigmore Place, Cavendish Square, London W1H 9DB Tel: 0171 371 9476 Fax: 0171 371 9478

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FINANCIAL TIMES SURVEY

How the tax system helps to attract foreign business
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RELOCATION IN THE UK

Channel tunnel could open new golden age for rail
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Friday June 9 1995

Healthy sign of change

UK companies foresee a recovery in relocation activity, while inward investment is likely to grow, writes Simon London

Conventional wisdom holds that in a healthy property market about one-third of tenants will have either just moved or will be considering sites for a move in the next five years.

Measured against this benchmark, relocation is regaining its rightful place on the management agendas of UK companies after a pause during recession.

A survey of 500 senior UK executives by Black Horse Relocation, part of Lloyds Bank, found that 22 per cent of companies were likely to relocate in the next five years. Separate research by Richard Ellis, the surveyors, found that 31 per cent of companies believe they will relocate within the same period.

In addition, the UK continues to attract more than its share of inward investment. NEC, the Japanese electronics company, announced last year that it would spend £530m building a semi-condnctor plant at Livingston, near Edinburgh.

A few weeks later, Samsung, the Korean industrial group, announced plans to build a £450m consumer goods manufacturing facility at Wynyard, Cleveland.

The Samsung plant should employ about 3,000 people and was secured with the help of regional assistance grants which will cover up to 20 per cent of the investment. As part of the deal, the Korean company is also moving its European head office from Frankfurt to London.

But not all inward investments are large, grant-assisted affairs. Samsung Heavy Industries, which manufactures construction equipment, recently announced that it would spend £10m to build a factory at Harrogate, Yorkshire, an area which does not attract regional selective assistance.

The Telford Development Agency, responsible for attracting inward investment into the town which already boasts 22 Japanese employers, is now concentrating on attracting medium-sized Japanese companies looking for sites of under 10 acres.

With inward investment still flowing and UK companies again considering relocation, competition for the best sites is sure to increase.

Research by Jones Lang Wootton, the surveyors, found that the number of companies relocating out of central London increased in 1994 after a downturn in 1992 and 1993.

In total, 19 organisations moved a total of 8,440 jobs out of central London last year. The level of prospective moves out of central London is also high by historic standards. The survey identified 55 organisations thinking seriously about decentralisation away from central London.

But while overall relocation activity is picking up, the types of organisations moving, and their motivation for doing so, have changed.

Firstly, the public sector has become much more mobile. According to Jones Lang Wootton, public sector organisations accounted for just 15 per cent of moves out of central London in the decade to 1993. Among organisations which have recently moved or plan to do so, the public sector made up 40 per cent.

For example, the Inland Revenue is moving its head office functions from central London to a purpose-built headquarters building in Nottingham. The Ministry of Defence plans to move its procurement staff from several locations to a new headquarters building now taking shape outside Bristol.

Secondly, the motivation of organisations for relocating is changing. Through the late 1980s, pursuit of lower costs was by far the biggest factor in convincing companies to move out of central London. The latest evidence suggests that more than half of planned moves were likely to take place as a result of corporate restructuring.

In particular, organisations are consolidating staff onto single sites. This suggests that companies have become much more aware of the organisational inefficiencies which can arise from having staff scattered on several sites.

Property developers also point to a growing awareness among tenants that old, inefficient buildings are in the long run more expensive to occupy than newer, more productive premises at higher rents.

Thirdly, more companies are looking for out-of-town business space than in the past. A recent survey by the Confederation of British Industry and Grimley, the surveyors, found that office occupiers show a strong preference for out-of-town locations, such as business parks.

Of companiaa planning to increase their office property holdings, 47 per cent were looking for out-of-town space compared with only 31 per cent requiring town centre offices.

This means that companies are choosing relocation destinations for different reasons. The growing importance of consolidation means that organisations are increasingly relocating to sites where they have an existing building, preferably in an out-of-town location.

Equally, because absolute cost savings have become less important, there is less reason to make long-distance moves to other regions of the country.

This is particularly true for companies considering moves out of London because the cost of property in the capital has fallen further than in otber regions. Rents in central London have fallen by more than 50 per cent from their peak in 1989.

The preference for short-distance moves marks something of a return to the relocation patterns which prevailed before property costs soared in the south of the country in the late 1980s.

Some long-distance moves are still taking place. At the end of last year, Mobil, the US oil company, decided to move the majority of its 470-strong bead office workforce from Westminster to Milton Keynes, Bucks. The deal to lease 105,000 sq ft of office space was the new town's largest since 1987.

Mobil is one of three national relocations to have settled on Milton Keynes in the last decade. Abbey National moved 1,000 employees from its base in central London and now employs 4,000. In 1987, Argos, the retail group, moved 300 staff from Edgware, north London.

However, Milton Keynes did not feature among tbe preferred head office locations of senior executives questioned by Black Horse Relocation.

Bristol was cited as the most desirable bead office location, followed by Edinburgh, Nottingham, Norwich and Plymouth.

The quality of the local workforce and road transport connections were tbe most important business factors influencing these choices.

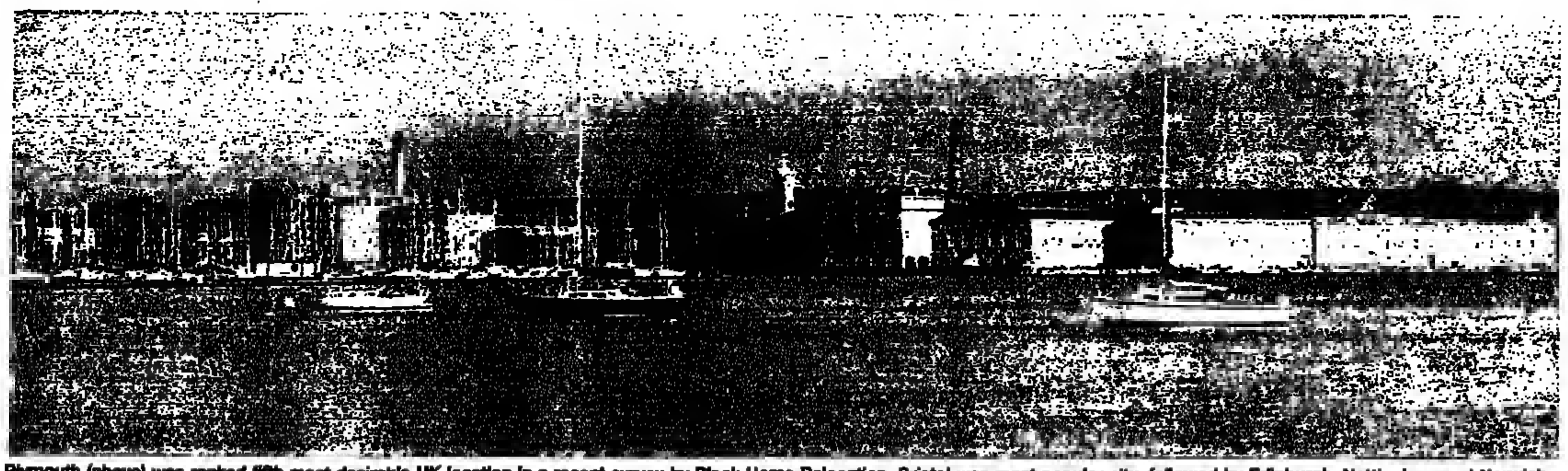
Notably, the availability of government grants was less important. Access to the rail or air transport networks was considered to bave very little relevance.

Similarly, Richard Ellis found tbat 65 per cent of company directors thought road infrastructure was a primary consideration when considering wbere to locata. Rail connections were felt to have little or no influence by 42 per cent.

The Ministry of Defence's plans to move 6,500 public sector employees to a single site outside Bristol is in many ways an arcbetypal 1990s relocation.

Tbe new procurement headquarters at Abbey Wood, an out-of-town site to the north of Bristol, is due to be completed in 1996. Staff are moving from nine central London buildings and locations in Bath, Portsdown and Portland.

The move is likely to cost about £90m, in addition to the £250m construction cost of one of Europe's largest office building projects. The MoD estimates that direct annual savings of about £40m a year will result from the move. Significantly, new working practices and organisational efficiency are expected to save £65m annually.


Plymouth (above) was ranked fifth most desirable UK location in a recent survey by Black Horse Relocation. Bristol was most popular city, followed by Edinburgh, Nottingham and Norwich

Gillian Tett on economic prospects

Big uncertainty is political

As Mr Kenneth Clarke, chancellor of the axchequer, surveys the British economy over the last year, he might be forgiven for feeling a little smug.

For, as the UK enters its third year of economic recovery, the country has been producing a set of economic fundamentals that are healthier than anything aaen for several decades.

On the one hand, growth has been proceeding at a steady pace, fuelled by a virtuous combination of manufacturing and axports. The economy expanded by a seasonally adjusted 3.7 per cent in the year to March, according to recently released data from the Central Statistical Office.

At the same time, corporate profits have been at a record high, growing 10 per cent over the same period.

But in spite of this growth, underlying inflation is still relatively muted, running at 2.6 per cent in April – a level that is just ontside the government's target band of 1 to 2.5 per cent by the spring of 1997, but remarkably low by the standards of previous decades. And though the public sector borrowing requirement remains high, it has shrunk rapidly in the past year.

But even if these sets of figures would appear to provide Mr Clarke with plenty of cheer, the real question now puzzling the markets is: just how long can this sunny scenario continue? For as the upturn starts to become more consolidated, there are already clouds on the horizon.

On the economic front, inflation, for example, is now forecast by the Bank of England to rise sharply this year – and exceed the government's target band next year. Recent official data have hinted that manufacturing growth may be slowing down, while the surga in exports has paused. Meanwhile, investment has been relatively sluggish so far, fuelling fears that manufacturing bottlenecks are growing. Indeed, recent surveys from the Confederation of British Industry suggest that capacity constraints are now tighter than at any point since the inflationary boom of the late 1980s.

But the biggest uncertainty dogging the picture is not so much economic as political. For with the general election due to take place by spring 1997 at the latest, suspicions are mounting in the markets that Britain could be heading for another bout of politically driven economic management – and that could plunge the UK back into the boom and bust cycles that have dogged the country in previous decades.

Mr Clarke himself, now entering his third year in office, is – naturally – keen to play down such suggestions.

Over the last year his guiding mantra has been that this recovery will achieve a level of "sustainable growth". And indeed, he publicly insists that there is no reason why the UK should not enjoy a "soft landing" after the current spurt of growth, that should continue to keep inflation in check.

Some of the economic funda-

Continued on Page 6

Robert Peston on the prospect of a Labour general election victory

How Blair may be different

Only so much praise from Lady Thatcher, the former British prime minister whose personality and policies did so much to attract foreign investment to the UK in the 1980s, is good for a Labour leader.

Her recent description of the conversion to market economics of Mr Tony Blair, the opposition leader, as "genuine" is about as far as he wants her to go.

The reason is that Mr Blair is walking a very fine tightrope. On the one hand, he wants to reassure businesses and investors that Labour has turned its back on its traditional economic policies of high spending, high taxation, high borrowing and a tumbling pound.

On the other hand, as a moderniser, he is appealing above the heads of his old-fashioned colleagues in the parliamentary party to Labour members in the country, whom he believes share his vision. But there is a limit to the number of Tory clothes he can wear.

In order to keep his party united – both before and after the election – he needs to demonstrate that there would be significant policy differences between a Labour government and a Tory one.

The prospect of Labour taking power at the next election – which must be held within the next two years – is increasingly likely. Its lead over the Tories, based on local election results and opinion polls, is between 25 and 30 per cent. On that basis, Labour would have a 200-seat majority in a future parliament.

That, however, is no longer the terrifying prospect for the business community that it once was. In particular, the framework of Labour's macro-economic policy has much in common with the government's approach.

In a series of speeches in May, Mr Blair – and Mr Gordon Brown, the shadow chancellor – have said the control of inflation is their number one priority. Mr Blair has said he puts a greater stress on a tight monetary policy than even the Tories.

The proof of his commitment is that Labour is gradually edging in the direction – though it is not there yet – of ceding control of the execution of monetary policy to the Bank of England.

It has already announced a series of reforms of the Bank, to make the decision-making process on interest rates more transparent, more predictable and less focused on the personalities of the chancellor and the Bank's governor.

The clear drift of its policy is – once it has confidence in these new institutional arrangements – to hand to the Bank the power to set interest rates, subject to inflation targets set by the Treasury.

At the same time, Mr Brown has said that the ratio of public sector debt to gross domestic product would be kept stable over the medium term, probably at the 60 per cent rate of the Maastricht treaty's economic convergence criterion on economic and monetary union.

And if investors need further reassurance of Labour's sound money commitment, they can take some comfort from the party's mildly greater enthusiasm for sterling's membership of a single European currency than that of the government.

One substantial uncertainty in Labour's economic policy is taxation. Mr Blair has said he will not impose penal rates of taxation either on companies or individuals. However, he has not said what Labour would do if the Conservatives make substantial income tax cuts before the next election, *as is highly likely*.

Labour has said that it will make modest reforms of the corporate taxation system to encourage investment and research and development. Its ideas are still vague in this area, though it has said it may reform capital gains tax in a way that encourages investment institutions to hold shares for longer.

Its underlying philosophy is to design a tax system which minimises the potential for abuses and models the fiscal definition of profits more closely on the accounting definition. Reassuringly for the business community, it is consulting widely before setting out a detailed plan.

In this area, however, there are vestiges of "Old Labour". The party has adopted a position of *moral outrage at the* substantial profits made by privatised utility companies, many of which operate as quasi-monopolies. Mr Brown has said that, were he chancellor at the moment, he would impose a windfall tax on them.

The other policy of deep concern to business is the plan to impose a national minimum wage – which is closely related to Labour's proposal to end the UK's opt out from the social chapter of the Maastricht treaty.

The employee rights elements of the social chapter are more of concern to small businesses than to big companies, since multinationals operating in the UK have already implemented many of its provisions, to bring their British operations into line with those in the rest of Europe.

A national minimum wage is, however, another matter. There are widespread concerns that this would lead to a sharp increase in wage costs.

Mr Blair recognises the concerns and has ruled out setting the minimum wage – or even spelling out a formula for its implementation – until he can assess the state of the economy after the next election.

If in macro policy the differences between Labour and the government are no longer substantial, the same cannot be said of its approach to corporate regulation, education and training.

Labour remains far more interventionist in these areas than the government. On training, it will probably impose a levy on companies which spend less than a specified sum on improving the skills of the workforce.

In the City of London, the likelihood is that a Labour government will streamline the regulatory system, merging a variety of watchdogs into one super-regulator, with greater powers to fine miscreants.

And its approach to corporate regulation is marked by a thinly disguised antipathy to a free market in company takeovers and a raft of schemes to boost the power of consumers.

Banks, financial service companies and utility companies would all be subject to far more stringent regulation of their pricing policies and toughened customer complaints procedures.

Mr Blair hopes that this regulatory approach will satisfy his own party's craving for distinctive policies and will not be too scary to industry.

However, the biggest threat to him – and by implication to the City and industry – are the party's dinosaurs on his back benches and in the unions. The prospect of power for the first time in 16 years means that for now they are prepared to hide their teeth. Whether they will be quite so tame once in office is altogether another matter.

Jonathan Schwarz looks at the impact of the tax system

Factors that make UK attractive

It is sometimes argued that taxation is not a prime factor in relocation decisions. The UK tax system, however, has a significant influence in attracting and keeping foreign business in the UK. Corporation tax rates over the last decade have been competitive with other European countries and until some previously high tax Nordic countries radically dropped their rates, the UK offered the lowest in Europe. This is only part of the story. A number of tax factors make the UK an attractive business location.

The UK now has around 100 double tax treaties with other countries. All but the most ancient are based on the OECD models. This has a number of benefits. New investors are assured that their UK tax treatment is subject to the standards for international transactions recommended by the OECD. Additionally, companies using the UK as a base can be sure that exports of goods and services from the UK will be subject to similar treaty protection from tax in third country markets. UK tax reforms over the past few years have focused on international business issues, several of which enhance the attractiveness of the UK.

The international headquarters companies regime introduced in the 1994 Finance Act permits UK companies which qualify to pay dividends to foreign shareholders without Advance Corporation Tax, where the dividend has been paid out of foreign taxed income. This is of particular interest to companies based outside the European Union which wish to establish subsidiaries or branch operations within the EU.

The UK can also provide a favourable location for European administrative and co-ordination activities. It is possible to have the Inland Revenue agree that such activities by a UK office and certain other management services provided in relation to European operations may be taxed on a cost plus basis. These arrangements have been done on a relatively informal basis in the past. The Inland Revenue is in the process of introducing a formal rulings procedure, which will enhance the utility of these arrangements.

Several other areas of tax reform have importance in the international context. The 1995 Finance Act revised the rules relating to non-residents carrying on a trade in the UK through a branch or agency. One of several changes introduced is the principle that a branch or agency in the UK is treated as if it were a separate and distinct person from the non-resident. This is in accordance with OECD recommendations. Previously, if any trading occurred in the UK, all related profits were taxable in the UK. Now a rational allocation of expenses between the foreign head office and the UK branch on an arm's length basis is possible.

Other helpful reforms include the adoption of a code dealing with the taxation of foreign currency transactions and of financial instruments. It is possible for UK companies to account for their profits for tax purposes in the currency of their foreign parent.

The major tax consideration for foreign companies establishing in the UK is in deciding whether to structure the operation as a branch or subsidiary. Both branches and subsidiaries are liable to corporation tax on taxable profits including capital gains. A subsidiary is also liable to account for ACT on dividends paid to the foreign parent arising out of UK profits. The legality of this ACT in certain circumstances is being challenged before the European Court of Justice. A branch need not account for ACT on remittances to its head office.

However, a UK company does not necessarily pay more corporation tax than a branch, although a timing disadvantage may arise. ACT may be set off against the UK company's liability to corporation tax. A number of tax treaties that the UK has signed provide for repayment of the tax credit to suitably qualified foreign parent companies in certain circumstances. This in effect reduces the real rate of UK tax on UK company profits to below that imposed on branches.

In the initial years of establishing operations, significant expenditure may be required which does not immediately generate profits. Losses of a UK branch may be available for relief against the foreign company's own profits in its country of residence. In some cases, it may be possible to get the best of both worlds. UK tax law permits foreign-owned branches to be converted into UK companies tax free. Thus, in the early years, losses may be offset against the parent company's other income, with the benefits of the UK company being saved for later, profitable years.

A new twist in planning such arrangements has developed in recent times in relation to so-called hybrid structures. These arrangements generally involve a business entity which is treated as a UK resident company for UK tax purposes, but as a branch for foreign tax purposes. Such structures are usually driven by the parent company's domestic tax regime. These are often used to achieve a degree of consolidation of profits for tax purposes in the parent company's country of residence or to overcome double taxation which may arise at the corporate and shareholder level in the parent company's home base.

One of the key longstanding features of UK tax law that attracts international business to set up in the UK is the tax regime for foreigners living in the UK on a temporary basis. The UK system of individual taxation seeks to distinguish between individuals who are resident in the UK and those who are resident but not domiciled in the UK. The essence of the system for non-domiciled UK residents is that they are fully taxed on their UK source income and capital gains. However, income and gains from non-UK sources will only be subject to UK tax if they are remitted to the UK.

These rules have facilitated the movement of executives and entrepreneurs to the UK. They enable existing compensation packages involving share options, pensions and other arrangements specifically tailored for the executives' home countries' tax laws to remain intact and for specifically UK packages to be tailored to UK requirements without the frustrating and complex double taxation issues that inevitably arise.

Jonathan Schwarz is a tax partner at Paisner & Co, London Solicitors, and Editor of the Financial Times World Tax Report.

They may not be the deciding factor, but they help, writes Chris Tighe

Wide range of grants offered

When new inward investment projects are announced, a quality labour force, good infrastructure and even the warmth of the welcome for investors tend to be highlighted as reasons for the choice of location.

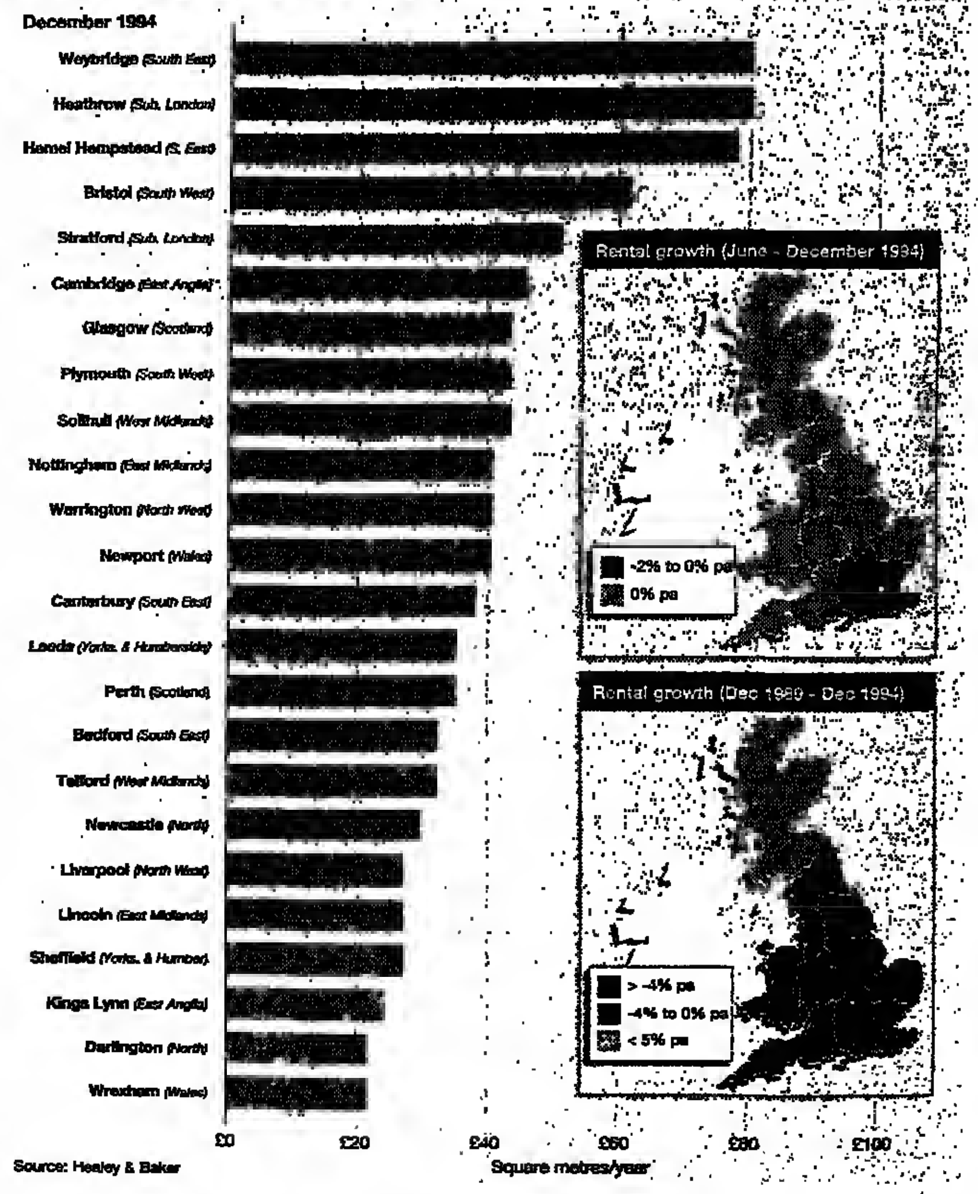
Regional economic development agencies and inward investors are more shy of talking about another key consideration – the availability of grant aid.

This diffidence is understandable; inward investors do not want to appear to milk the grants system for short-term advantage and regional development bodies are keen to show that their areas offer more than just cash aid.

That the UK has won nearly all Korean investment into the European Union, 41 per cent of Japanese investment and 39 per cent of US investment, despite having one of Europe's less generous grant regimes, demonstrates that grants alone do not dictate such decisions.

But equally, the fact the UK government, despite its avowed commitment to free market forces, made 1,396 offers of regional selective assistance totalling £342m in 1993-94 alone – and received in that same year 2,225 applications for RSA totalling £627m – underlines the importance of grants in securing inward investment.

RSA, the principal instrument in Britain for encouraging capital investment by manufacturing and service sector companies, is available in assisted areas designated by the government. The current assisted areas map, which came into effect in August 1993, includes, for the first time, parts of London and south-east England. It comprises development areas, covering about 16 per cent of Britain's working population, and the lower-tier intermediate areas, covering nearly 18 per cent. The areas were selected because of such factors as high unemployment rates, local industrial decline and geographical peripherality.



Source: Healey & Baker

The key RSA rule is that there is no automatic entitlement; it is entirely discretionary. To qualify, projects must create or safeguard jobs, contribute to the regional and national economy, be viable and yet need the assistance to go ahead on the basis proposed. This means, crucially, that applicants must not commit themselves to a project until an RSA offer has been received.

RSA grants are based on the project's fixed capital costs and the number of jobs expected to be created. The level of grant is the minimum deemed necessary to enable the project to proceed. As a general rule, RSA may provide 15-25 per cent of total capital cost in development and 10-15 per cent in intermediate areas.

RSA can be very substantial; the allocation for Samsung's £450m European electronics complex, the first phase of which is under construction at Wynyard, Cleveland, is £58m.

The government also offers discretionary regional enterprise grants for small businesses in some assisted and other areas. This scheme comprises regional investment grants, offering 15 per cent of fixed asset expenditure up to a maximum grant of £15,000, for companies employing up to 25 full-timers, and innovation grants of 50 per cent of agreed project cost, up to a maximum grant of £25,000, for companies employing under 50 people.

The RSA and REG schemes operate in mainland Britain through the Department of Trade and Industry and the Scottish and Welsh offices.

Northern Ireland operates a separate system of inward investment incentives; of all UK regions, it can offer in high unemployment areas the most grant aid. Here too, grants are discretionary.

Key inward investment incentives in Northern Ireland include up to 50 per cent cash grants towards the capital cost of buildings, machinery and equipment, 100 per cent industrial rates exemption for manufacturing companies, depreciation allowances of 25 per cent a year on capital expenditure on machinery and equipment and up to 50 per cent of total staff training costs. Employment grants, related to the number of jobs created, are available as well as various other grants.

Britain also operates a number of regeneration initiatives of direct interest to inward investors.

The concept of government intervention to assist "depressed areas" dates back in the UK to the 1930s; the body formed then to encourage development of light industry to counter economic decline grew to become English Estates which in 1993-94 undertook capital expenditure of £65m. It has now been absorbed into English Partnerships, the new urban regeneration agency for England.

Regional development agencies and local authorities throughout Britain also promote economic development and many provide wide-ranging assistance to business. The Training and Enterprise Councils in England and Wales and the Local Enterprise Companies in Scotland assist inward investors in training suitable employees.

And, under the banner of the Single Regeneration Budget, the UK government has grouped 20 previously separate programmes, with the aim of providing flexible support for regeneration, economic development and industrial competitiveness in England, mainly in urban areas. The SRB budget for the three years from April 1995 is £4bn. Schemes involve partnerships, rather than single companies, but may benefit businesses.

The wide range of initiatives in some areas – inward investors can also seek loans and equity capital from regeneration bodies such as British Coal Enterprise and British Steel (Industry) – may sound daunting. But economic development bodies are keen to maximise the attractiveness of incentives by working in partnership with investors.

As a member of the European Union, parts of the UK qualify for assistance from EU structural funds. Most are geared towards infrastructure projects, including roads, education and training, rather than individual companies. The EU also has 13 "community initiatives" focused on hard-hit sectors such as defence, textiles and steel.

Grants towards capital projects are not generally available to individual companies through the EU – the exception is grants, up to a maximum of around 30 per cent, for the agricultural and fish processing sectors – but inward investors may wish to consider EU loan possibilities.

Those planning large projects – generally in excess of Ecu 25m capital cost – could consider applying to the European Investment Bank for a direct loan, at moderately advantageous rates, covering up to 50 per cent of project cost. This covers the assisted areas, plus some categories of investment. Smaller investors can seek EIB loans via one of the UK clearing banks acting as an agent.

Michael Skapinker looks at expansion plans at Heathrow and in Manchester

Jobs may depend on airport plans

One of the great attractions of being in the UK is that it is so easy to go somewhere else. The UK is bost to three of Europe's top 10 airports: Heathrow, Gatwick and Manchester.

London's Heathrow occupies pride of place as the leading international airport in the world, with direct flights to more than 200 foreign destinations.

Heathrow, which handled 51.7m passengers last year, also provides connections to other UK business centres: the London-Glasgow route is one of the busiest in Europe.

If BAA, wbicb owns Heathrow, is to be believed, however, the airport's position is under threat from a group of environmentalists, anti-noise campaigners and local authorities. The protesters are opposing Heathrow's plans to build a fifth terminal, currently tbe subject of a planning inquiry. The new terminal, which will cost £900m, will increase the number of passengers handled by Heathrow annually to 80m.

BAA says: "If Terminal Five is not built, Britain will have giveo away its world leadership in airport operations. The UK economy will feel the impact as foreign investment drifts to Europe, the City's already threatened position as Europe's financial centre would be endangered and inbound tourism will suffer."

The Confederation of British Industry has also stressed the importance of building a fifth terminal, as have trade unions with members in the aviation industry. Mr Harold Eatock, the CBI's southern and south-eastern regional director, says: "There is a risk that some of the world's big airlines will move their operations and jobs from Heathrow to the Continent if the fifth terminal does not go ahead, creating an adverse impact on the UK and regional economy. Major expansion is being planned at competing European airports, such as Charles de Gaulle in Paris and Schiphol in Amsterdam."

Some of the world's big airlines could move their operations and jobs from Heathrow to the Continent if the fifth terminal does not go ahead, it is said

Heathrow is not the only airport wbose expansion plans are the subject of puhlic scrutiny. An inquiry into Manchester's proposal to build a second runway finisbed taking evidence earlier this year and is now considering its decision. Manchester airport says it is confident of receiving approval, which it expects at the end of this year or early in 1996.

The expansion plans at Heathrow and Manchester have been strongly attacked hy environmental campaigners. Those who oppose a new terminal at Heathrow say the notion that the UK will lose foreign investment without it is nonsense. London, they say, will remain a leading financial and business centre, with or without a fifth terminal at its principal airport.

Mr Jim Bailey, planning officer of Surrey County Council, one of the local authorities leading the opposition to the terminal, says: "Heathrow will continue to grow whether terminal five is built or not, with more passengers, more flights and more traffic. It is seriously misleading of both BAA and British Airways to suggest that without terminal five Heathrow will wither and jobs will be lost."

The west of London is heavily congested, Mr Bailey says. It would be far better to develop Stansted airport on the eastern side of the capital.

The difficulty is that because Heathrow already has such a large number of international connections, travellers insist on using it. Other airports find it difficult to catch up. Glasgow airport, for example, has flights to only 10 destinations outside the UK. While it still offers direct connections to New York, Boston and Chicago, it no longer has flights to Washington DC.

Unless capacity is expanded, airports in the south-east of England will have no option but to start turning travellers away early in the next decade

Manchester airport serves all the important destinations in Europe and most of the minor ones. It opened a second terminal in 1993. If it receives approval for its second runway, it hopes to have it in use by 2005 and to increase the number of passengers the airport handles from 14.8m last year to 30m.

Mr Geoff Muirhead, Manchester's chief executive, says, however, that his airport cannot hope to replace Heathrow as an international transit airport. About a third of Heathrow's passengers use the airport to change aircraft. Only 6 per cent of Manchester's do and this is not expected to rise beyond 10 per cent hy 2005.

Other London airports, such as Gatwick, Luton and Stansted, also cannot offer the range of flights that Heathrow can. In its argument for terminal five, BAA says that 71m passengers used one of the four London area airports in 1994, with 65 per cent choosing Heathrow. By 2016, the nnmber wanting to use these four airports is expected to grow to 165m a year. Unless capacity is expanded, airports in the south-east of England will have no option but to start turning travellers away early in tha next decade.

BAA says: "Growth at Gatwick and Stansted will absorb part of the demand but there is no doubt that airlines and their passengers view expansion at Heathrow as an essential part of the solution. Before 1991, there was a general prohibition on new airlines using Heathrow. Eighteen months after these rules were relaxed, 18 new airlines were operating at Heathrow, carrying 1.8m passengers in 1992."

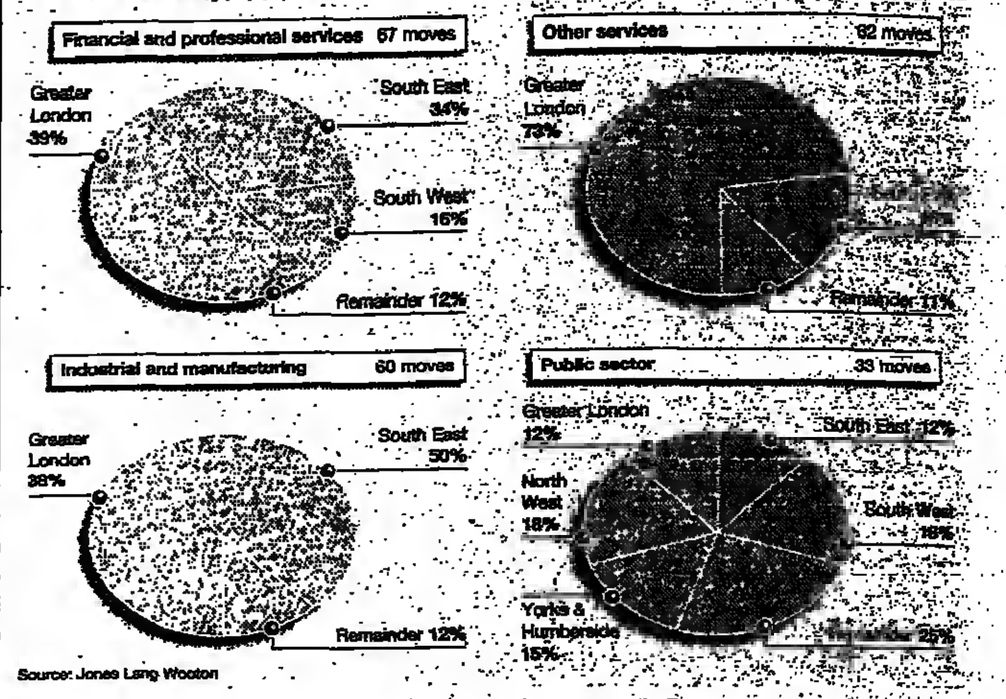
Heathrow is already full. Mr Steve Garner, deputy general manager at the London Air Traffic Control Centre, at West Drayton, near Heathrow, says it is not possible to get many more aircraft into the airport under current circumstances.

The sort of change that would allow Heathrow to increase its capacity substantially would be the building of a third runway. The government said earlier this year, howaver, that it would not allow a third runway to he built.

BAA says the increasa in passengers will mostly be achieved through more efficient use of its existing runways and an increase in the number of passengers on each aircraft.

Heathrow plans to build new transport links to reduce congestion for those travelling between the enlarged airport and central London. These include the Heathrow Express rail link, expected to open in 1997. BAA is also looking into the viability of new rail links to connect the airport with the rail system elsewhere in the south-east of England.

Decentralisation by activity sector, 1983-1993



Source: Jones Lang Wooton

Alan Cane on liberalisation in telecommunications

Price leader aims to stay ahead

More than a decade of increasing liberalisation in telecommunications has endowed the UK with the most open and competitive market in the world and some of the lowest call charges.

The customer, both business and residential, has benefited hugely from these developments. As Sir Iain Vallance, chairman of British Telecommunications, the leading operator, told a recent conference: "Of the major countries of Europe, the UK has been the first to the pervasive use of digital technology, the first to the pervasive use of mobile services and the first to the pervasive use of virtual private networks."

The UK and Sweden are currently the only fully liberalised telecoms markets in Europe. This is set to change. European Union governments, in a series of agreements since 1993, have accepted that their markets for telecoms services and infrastructure should be fully open to competition from January 1998.

BT is one of the few privatised European telecoms operators. This also is set to change. Late last year Deutsche Telekom, the world's third largest telecoms operator, was transformed into a joint stock company ahead of privatisation in 1996.

This pattern will be repeated in most European countries over the next few years. The prospect of privatisation and liberalisation, bringing an inevitable increase in competition, has been driving down telecoms costs across Europe. There are, nevertheless, dramatic differences between one country and another, with the UK in the vanguard of the low cost countries.

Analysys, a Cambridge, UK-based consultancy has developed a broadly acknowledged method of comparing international telecoms costs. It estimates that for a large business – with 100 exchange lines – the average cost per line in 1995, calculated in Ecu, works out at 6,708 in Italy, 5,386 in Germany, and 4,998 in France but only 3,180 in the UK using Mercury Communications and 3,694 using BT.

Prices are tumbling across Europe but few countries seem prepared to open their markets to competition before 1998

For a medium-sized company with 12 exchange lines, the figures were 3,239 for Italy, 2,564 for Germany, and 2,323 for France but only 1,726 using Mercury in the UK and 1,797 using BT.

For a company making substantial use of telecommunications, therefore, a base in the UK offers significant advantages.

However, especially for long distance and overseas calls, the business customer is not forced to use BT or Mercury. Several smaller operators have established themselves since liberalisation and these are able to offer remarkable bargains. Typically, they will lease lines wholesale from a larger operator, retailing capacity to their customers at rates which may be only half BT's charges.

BT was privatised in the early 1980s; Mercury Communications was licensed in 1984 to provide competition, offering a full range of fixed national and international telecommunications services. For the time, this was a radical development. Telecoms services were regarded as a natural monopoly best managed in state ownership.

In the early 1990s, the process went a step further with the government opening the market to a wide variety of operators.

At the same time, cable television operators, who had been making indifferent progress in the UK, were allowed to offer telephone services. This was to encourage their owners, chiefly US telecoms operators, to invest in establishing cable networks which could at some stage coalesce into a nationwide information superhighway.

BT, on the other hand, was not allowed to deliver broadcast entertainment over its national network to prevent the fledgling cable operators being crushed by its size and universal access to the home and office.

As a consequence, businesses have a wide range of operators to choose from and a broad range of products and services.

BT remains the dominant operator with just under 90 per cent of the market. Mercury is second, chiefly through its strategy of undercutting BT's prices on long-distance and international calls. The rivalry between the two companies is continuing to drive down prices. Last month, Mercury launched a scheme which for the first time offered its residential customers medium and long-distance calls at a single price.

Other telecoms companies in the UK include MFS and Colt, which concentrate on the business customer, installing their own fibre optic networks to provide seamless services; Colt has installed some 100 kilometres of fibre within London's M25 ring road; MFS has some 100 large customers around London.

Electrical utilities such as Energis, set up by the National Grid Company and owned by the regional electricity companies, have established their own long distance networks, winding optical fibre around the earth cables on its pylons.

Most of these operators are competing with BT by offering discount long-distance services. There is great interest in Ionica, a Cambridge-based company, which this year will compete in the "local loop" between switchboard and office or home, using radio technology.

AT&T, the largest US long-distance operator, has a UK licence, as has Sprint, the third largest. AT&T is promising a full range of services in the UK.

The UK is strong on advanced telecommunications. Leased lines are cheap compared with other European countries and Mercury has made a speciality of "hnbbing", providing a ronteing point for international services.

Call centres, which use advanced network software to manage calls made to toll-free numbers, are being increasingly established in the UK by companies impressed by the high quality and low cost of telecommunications. How long can the UK maintain price leadership in Europe? Probably until the end of the century. Prices are tumbling across Europe but few countries seem prepared to open their markets to competition – the chief stimulus to low prices – before the statutory deadline at the beginning of 1998. It takes time to learn to operated in a liberal environment. The UK has the advantage and seems eager to press it home.

Charles Batchelor sees the Channel tunnel start to make an impact

Rail's golden age beckons

A party of American businessmen and women, over in London for their company's annual convention, take a Eurostar train through the Channel tunnel for a celebration dinner in Paris. If they had had to fly to the French capital, it is unlikely they would have made the trip.

Meanwhile, a growing number of car manufacturers have switched consignments from frequently lengthy sea routes and are shipping full trainloads of their vehicles through the tunnel. Rover and Fiat move cars between the UK and Italy by rail; Ford ships cars from Liverpool to Valencia in Spain; and Peugeot sends shipments from Calais to Glasgow.

For both passengers and shippers of freight the Channel tunnel is leading to a radically new perception of Britain's place on the map of Europe. The slow start-up of rail services, and the well-publicised problems which have afflicted the Eurostar trains in particular, have tended to blur the tunnel's impact. But significant changes in travel patterns are starting to come through.

The opening of the Channel tunnel, combined with the privatisation of British Rail, have made rail the focus for change in the UK's transport infrastructure. The country's motorway network, by contrast, is now regarded by government as being largely complete though road widening and the construction of much-needed bypasses is being maintained.

Transport links are only one factor which chief executives or production managers take into account when deciding on the location of an office or a factory. Issues such as the quality of the workforce, labour relations and financial incentives also play an important part.

But the increasing internationalisation of business and the growth of manufacturing techniques such as "just-in-time" have given an added urgency to the issue of accessibility. Managers cannot afford to have key personnel or essential components spend too long in transit, stuck in traffic jams or awaiting unreliable trains.

Britain has some way to go in improving the image of its transport infrastructure. Underinvestment in public transport and a concentration on developing the road network have left the UK with a less than top-class railway system. Much rolling stock is elderly while there is a big backlog of maintenance on many key routes.

At the same time, Britain's roads are still among the most congested in Europe. The UK has on average 67 vehicles for every kilometre of road compared with Germany which has 62 and France which has 36. The average daily flow of vehicles on Britain's motorways is 53,600 vehicles compared with only 35,600 in Germany and 16,000 on the French tolled *autoroutes*.

Crucial to the development of Britain's railway network, freight as well as passenger, is the expansion of services through the Channel tunnel.

The Eurostar trains which link London with Paris and Brussels in about three hours carried their millionth passenger on May 23, six months after the start-up of services, and expect to reach their second million three months later.

Sixteen Eurostars are in service and the full complement of 31 should be in operation by the autumn.

Sleeper services which will link cities such as Swansea, Glasgow and Manchester with Paris and continental centres including Amsterdam, Cologne and Frankfurt with London are due to start in 1996. Long-distance daytime services will also be introduced between Glasgow, Paris and Brussels.

But it is freight shipments which should benefit most from the linking of Britain's 10,000-mile rail network with the 150,000-mile continental European railway system. With freight shipments rarely viable for distances of less than 300 miles, the direct link through the tunnel creates a wealth of new opportunities for UK freight forwarders.

Container shipments through the tunnel have risen sharply since services began just under a year ago and currently average about 50,000 tonnes a week. Growth in the past two months has been constrained by a lack of locomotive haulage capacity but Railfreight Distribution (RfD), the BR subsidiary responsible for international container shipments, recently took delivery of 12 electric locomotives which can haul heavier trains, and the upward trend is expected to resume.

Mr Ian Brown, managing director of RfD, believes previous forecasts that freight volumes would rise from 2.5m to 6.5m tonnes by 2000 will be exceeded. For a start, 1m of the 3.5 tonnes shipped in rail containers across the Channel each year will soon go by ferry. Mr Brown expects this service to be phased out, leaving the tunnel as the sole means of rail-based shipment to the Continent. He foresees 14m tonnes of goods being shipped through the tunnel by rail, though this will depend on construction of a high-speed link between the tunnel entrance and London to provide extra route capacity. Four consortia have bid to build the £3bn line and a decision on the winner is expected before the end of the year.

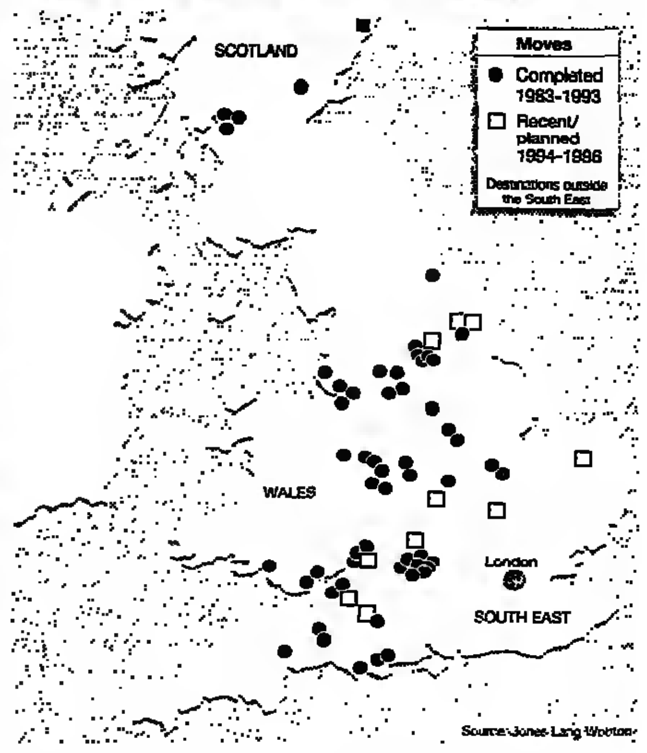
Rail privatisation continues its slow progress with initial bids now having been invited for the first three train operating franchises. The government hopes to have 51 per cent of the passenger rail network in private hands by next April, but few outside observers expect this tight timetable can be achieved.

Until the train operating companies are in the private sector it will be impossible to judge whether privatisation has delivered the promised benefits of improved services and a greater focus on customer satisfaction.

So far, privatisation has led to cutbacks in sleeper and motorail services between Scotland and England (though a Scottish judge has put the sleeper closures on hold) and a reduction in the number of special excursion trains. But its impact on core passenger and freight services is still unclear, and will be subject to intense scrutiny in the coming months.

If privatisation can be made to work and the Channel tunnel continues to expand services, then a golden age beckons for the British rail network. But considerable government subsidies will be required on domestic rail routes and the roads will remain the dominant mode of transport for most purposes.

Offices decentralised from central London since 1983



Malaysia and Singapore are investing abroad, writes **Kieran Cooke**

The newly affluent buy British

The advertisements in Singapore and Malaysian newspapers are full of consumer goods sought after by the newly affluent. In Singapore car prices are said to be the highest in the world. Yet the market is buoyant, with long waiting lists for some models. In Malaysia car sales went up 25 per cent last year.

However, there is another story behind the advertisements. Every day, Singaporeans and Malaysians are enticed to put their new-found wealth not just into cars and perfumes, watches and Italian suits. How about buying a block of flats in London or a shopping arcade in Sydney, a hotel in New York or an industrial site in Scotland?

Real estate agents are busy tapping one of the world's rapidly expanding pools of capital. Malaysians and Singaporeans – especially those who are Chinese – have prospered on the back of the region's economic growth. London has already seen the buying power of the Singaporean hoteliers in action: some of the capital's prime hotels are now owned by the island's property moguls.

The Inn on the Park is owned by Hotel Properties of Singapore. The CDL group owns the Gloucester Hotel, the Chelsea and the Bailey. Scotts Holdings runs several serviced London apartments. Analysts put a £300m-plus tag on the value of Singapore investments in London hotels over the past three years.

Singaporeans are also using their new affluence to invest in UK private properties. In Singapore, property prices have risen rapidly and London prices seem cheap by comparison. The Singapore dollar is one of the world's strongest currencies: in 1960 one British pound was worth S$8.55. It is now worth S$2.24. About 6,000 Singaporeans study in the UK: many parents decide to buy their children a house or flat in London, Oxford or Edinburgh for their stay.

Singapore companies are being urged to be adventurous and invest more abroad. The island republic, with a population of under 3m, has estimated foreign exchange reserves of US$60bn. The government says overseas investment is vital to Singapore's onward growth.

Singapore Telecom, the partially privatised telecommunications and posts utility and the island republic's biggest company, has invested about S$600m overseas in recent years. More than S$200m of that has been in Britain – in telephony links in conjunction with TV cable operators in Yorkshire and East Anglia.

PCI, a Singapore electronic components manufacturer, has invested S$5m in a printed circuit board facility near Glasgow. Mayor, a Singapore power supply and moulded cable accessories manufacturer, spent a similar amount on a Welsh plant in 1990. It has since been taken over by the Manchester-based Volex group.

Malaysian investments in Britain have traditionally been in the property sector. But that is changing. Many Malaysian companies, buoyed by seven consecutive years of economic growth, have considerable cash resources. As in Singapore, the first priority is regional investment. But there are signs that the Malaysians are also targeting Britain as an investment base, particularly in relation to penetrating the EU market.

Sime Darby, the Malaysian conglomerate, last year bought Britain's Lec Refrigeration for £21.7m. It plans to pump £30m into Lec to upgrade operations.

"We have a substantial presence throughout south-east Asia and Australia," says Mr Nik Mohamed Nik Yaacob, Sime Darby's chief executive. "Now we want to spread our wings further. We aim to bring the Lec plant up to state-of-the-art manufacturing standards and expand operations into Europe. Later we plan to bring the technology to this region."

This global approach to business development has been the basis for a determined British push to attract more investments from Asia's fast-emerging economies. Mr Michael Heseltine, trade and industry secretary, recently told a Britain/Malaysia business conference that the two countries could jointly exploit opportunities around the world. He pointed out that the Rover group was now collaborating with Proton, the Malaysian car manufacturer. There were also links in the other direction: Mega First, a Malaysian company, has recently purchased Bloxwich Engineering, a British company which produces door closure systems.

There have been difficulties in Britain's relations with Malaysia. Kuala Lumpur imposed a seven-month ban on giving government contracts to British companies last year after critical reports about the Malaysian leadership in the British press. Yet old colonial links plus ties of language and common legal systems mean that Malaysians are often more comfortable working with British companies. Dr Mahathir Mohamad, the prime minister, says past problems "are now behind us, once and for all". Trade between the two countries is growing rapidly, to M$10bn (£2.5bn) last year.

John Burton says Korean companies are keen to invest in Britain

The way to beat trade barriers

The UK is becoming the main industrial base in Europe for South Korean companies as they rapidly expand abroad. Germany has so far attracted a fifth of the $1.3bn that Korean manufacturers have invested in Europe, while the UK is close behind at 16 per cent.

The UK, however, is likely to surpass Germany shortly as Korean companies abandon the latter due to the country's high wage costs and strong D-mark.

"Samsung's decision last year to build an electronics complex in the north-east of England is proving crucial to attracting Korean investment and we expect much more in the next few years," says one UK diplomat in Seoul.

The $700m project by Samsung Electronics to manufacture consumer electronics in Wynyard represented the biggest European investment to date by a Korean company. Samsung has also moved its European headquarters from Frankfurt to London.

The rush of Korean investment to Europe reflects growing concerns about EU trade barriers. Korean electronics companies are establishing new facilities or expanding current ones in the UK as they stop direct exports to the EU in response to proposed anti-dumping duties.

The Samsung electronics complex, which will be completed in 2000, will produce microwave ovens, computer monitors, personal computers, facsimile machines and colour display tubes. The UK is also believed to be the leading candidate for a semiconductor plant that Samsung is planning to build in Europe toward the end of the decade.

Daewoo Electronics is raising production capacity at its VCR factory in Antrim, Northern Ireland, to 1m machines from 600,000.

A similar expansion is occurring at LG Electronics' microwave oven and colour television factory in Newcastle as the company ends all direct shipments of these products from Korea to the EU by the end of the year.

LG Electronics is also considering the transfer of its computer monitor or VCR manufacturing operations from Germany to the UK, following the recent move of colour TV production to Newcastle.

"The UK's biggest advantage is its low labour cost and well-educated workforce. UK wages are at least 10 per cent lower than in Germany," says Mr Kim Young-jun, executive vice-president and chief financial offer for LG Electronics.

"Moving our operations from Germany to the UK would probably save us $4m to $5m a year, although we don't contemplate a complete shutdown of our German facilities since writing off our investment there would be expensive," he adds.

Daewoo Electronics claims that wages in the UK are now lower than in Korea. Its Northern Ireland workers are paid $1,200 a month against $1,300 received by a worker at the main domestic plant in Kumi, South Korea, says Mr Bae Soon-hoon, chairman of Daewoo Electronics.

Korean executives also cite the UK's good labour productivity and excellent infrastructure to transport products to the rest of Europe. In addition, Koreans are most familiar with English, which is the main foreign language taught in schools.

Patrick Harverson looks at the best way to set up in the UK

The easy options in a free market

Although inward investmant in the UK remains huoyant, thanks to the strength of the domestic and main worldwide economies, there is no discernible trend among foreign companies in terms of which business structure they prefer as the best means of establishing a presence in the country – whether it is through a joint venture, an acquisition or a start-up operation.

Generally, however, the joint venture tends to be the least common option of the three, if only because acquisitions and start-ups are easier options in a deregulated, free market economy like the UK's.

Joint ventures are more prevalent in countries where there are barriers to entry by foreign interests, where it is a slow, difficult process buying another company or starting a new operation from scratch, and where local funding is not available.

Yet, according to Mr Martin Wright, head of the corporate department at London law firm Campbell Hooper, companies wanting to set up a joint venture in the UK find it a less complicated procedure than in many continental European countries, again because of the deregulated nature of the market. On the Continent, the complexity of regulations and business structures means setting up a joint venture can be a cumbersome and time-consuming process.

Irrespective of where a company is considering establishing a joint venture, the decision will be based ultimately not on geography but on what the company is trying to achieve in business terms, says Mr Wright. "For those occasions where a joint venture has taken place, it comes back to corporate strategy – ie, there is a need for something that is supplied by both parties." For example, one company can bring superior technology to the partnership, the other market share.

Neither gaining access to new technology nor winning market share were at issue when Astra, the Swedish drug company, decided to come to the UK earlier this year. At the top of its strategic agenda was a need to build its research and development capabilities outside Sweden, as Mr Staffan Ternby, vice-president of Astra, explains.

"We had been looking at the possibility of expanding our R&D outside our home country, because in the pharmaceutical field Astra is now too hig for Sweden. We have more than 3,000 people involved in R&D, and the output of PhDs [in Sweden] in certain disciplines doesn't meet our requirements. So we had to look for front-line sclentists elsewhere, and it's not easy to attract people to move to Sweden. It's sometimes easier to look for an establishment outside the country."

It found that establishment in the form of the R&D operations of the UK pharmaceutical group Fisons. Astra acquired these in March.

Astra, however, did not set out from the start to buy an existing business, nor to move to the UK. "We were looking internationally," says Mr Ternby. "But the UK suited us very well. We regard it as a prominent country in pharmaceuticals."

Although the group did consider starting up an operation from scratch, it realised that "to establish a stand-alone business is a long procedure, especially in research and development."

Consequently, Astra opted for an acquisition, despite the high costs. As Mr Ternby explains: "In the short term it might look expensive to buy 900 people for £202m, but you pay an extra premium for the fact that it is a functioning operation."

The need to become established quickly was paramount for a Canadian manufacturer which recently turned for advice to Mr Wright at Campbell Hooper. Like Astra, it originally considered a start-up, as Mr Wright explains. "It looked at setting up from scratch, but ended up looking for an acquisition. It was a question of opportunity. The corporate objective was to have a presence in Europe, primarily the UK. To begin with, the question they asked was: is this something we should set up for ourselves? They looked at the various ways to do it and at various prodnction facilities. But, because they were in the business, they found out that one company was coming on the market. It represented an opportunity to buy turnover and a ready-made production facility in one go."

> **"To establish a stand-alone business is a long procedure, especially in research and development"**

The acquisition route obviously has the chief advantage of speed – the foreign company establishes a presence almost overnight. However, not all companies want to move so rapidly. Many prefer to build their operations abroad gradually.

Mr Paul Rew, a partner at the accountancy firm of Price Waterhouse who advises clients on inward investment in the UK, aays the process whereby a company establishes itself outside its home market can be a very slow one. It typically starts with some basic market research.

"You begin by finding out if there is a market. If there is, you start with an agent or a distributor. Then you need warehousing and distribution capabilities as your sales grow. Then maybe you decide yon need to do some finishing to the product here. Then you get to full-scale manufacturing. Then you look at where the components are coming from. You may take supplies from traditional aources at home, but you will soon start to look at component suppliers locally. Gradually you become more bedded into the local economy."

Yet, last year, the giant Korean industrial group Samsung did not hsve the time to adopt this gradual approach when it began to search for somewhere to put a £450m consumer goods manufacturing operation in Europe. Price Waterhouse helped Samsung make the decision.

The choice, says Mr Rew, was between Spain, Ireland and the UK. Samsung eventually opted for a site at Wynyard in north-east England. The choice of business structure was never difficult. "Ultimately, if you want to arrive in force [like Samsung], yon will have to come in and take over an empty manufacturing unit or huild your own one," says Mr Rew.

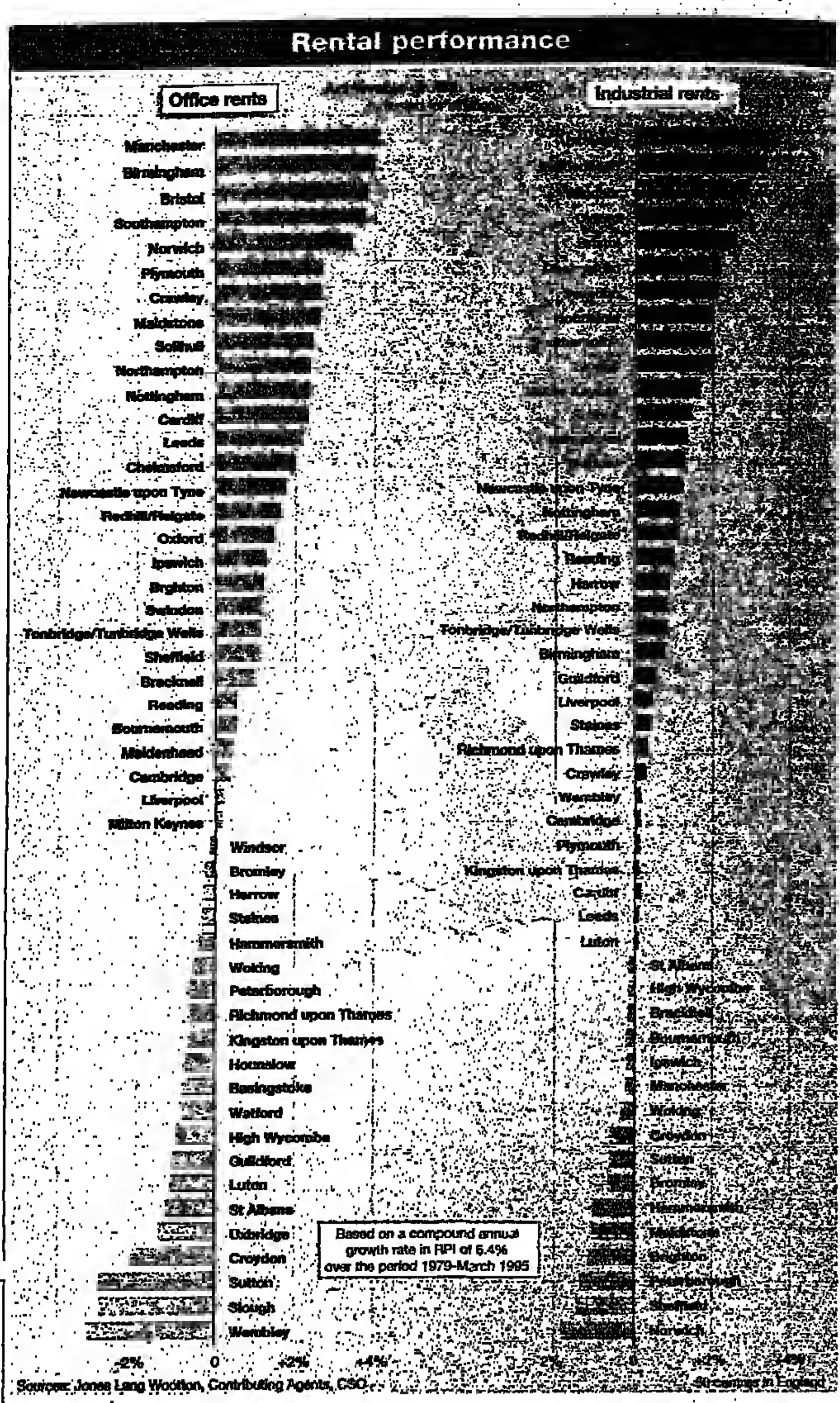
Although the arrival of big south-east Asian industrial groups in the UK over the years has attracted a lot of publicity, large, capital-intensive start-up operations are a rarity. The vast majority of atart-ups are on a much smaller scale, says Mr Wright. "We tend to see more small hranches established, which are opened initially as representativa offices but which then grow organically."

Looking to the future, Mr Rew baliaves the UK can attract new inward investment designed around a new structure. "One of tha things we're seeing at the moment is a trend toward 'shared service centres'. This is where you have a multinational group which operates in a number of countries around Europe with a lot of back office people supporting admininstrative functions, and the group starts asking: 'Do we need to do this in each country? Can't we just have one support centre that does it all?'"

Mr Rew believes foreign companies, especially multinationals in the US, where the idea of shared service centres is catching on most quickly, will find the UK an attractive base for such integrated back office operations.

"It is still early days in this area, but there is a lot of activity and the UK is a strong contender. We have a number of advantages. We have good information technology skills and a lot of accountancy skills. For north American companies we speak the same language. And in terms of staff costs, the UK is a relatively low-cost area. Plus, there is a good business environment, excellent telecommunications and excellent physical communications to north America."

Rental performance



Source: Jones Lang Wootton, Contributing Agents, CSO

Big uncertainty is political

Continued from Page 1

mentals undoubtedly support Mr Clarke's hopes. For what makes this recovery unusual is that economic growth has been driven by industry in a way that has not been seen since the mid-1970s.

When the upturn began in 1992, it was triggered by a small rise in consumer spending. But in contrast to the 1980s' boom, the consumer side of the economy has since eased back, partly as a result of gradual tax increases over the past two years – and partly as a result of the three interest rate rises in the past eight months.

In place of this consumer spending, however, manufacturing and exports have steadily grown, boosted by the impact of sterling's 1992 devaluation, rising by 4 per cent and 9 per cent last year respectively. Consequently, in recent months net exports have accounted for almost all of the overall growth in the economy.

This pattern has had significant implications for inflation, since it has meant that price pressures have not been fully passed along the business chain. Although the cost of raw materials rose by 12 per cent in the course of last year, fuelled by a decline in the value of sterling and rising world commodity prices, the relatively muted levels of domestic demand have meant that many manufacturers have not been able to pass these price rises on. On the high street the weakness of consumer spending – which actually fell by 0.1 per cent over the first quarter of this year – means that many shops have been unable to raise prices.

But since this relatively weak consumer sentiment has been matched by lack of popular support for the Conservative government, Mr Clarke will face considerable pressure to help the domestic economy in the run-up to the election. One method might be through tax cuts – the CBI calculates that a £4bn cut in the level of personal tax would add an 0.8 percentage point to the annual level of consumer spending.

But the pressures might also encourage Mr Clarke to take a softer line on monetary policy. Indeed in early May the chancellor appeared to have one of his first significant disagreements with the Bank of England when he refused to sanction a fourth interest rate rise in seven months, even though the Bank apparently recommended it.

Economic optimists point out that some growth in the domestic economy may not necessarily be a bad thing, particularly since exports are unlikely to surge to last year's level as the US economy is now slowing. Indeed, if consumer spending growth remains moderate, it is perfectly possible that the next election may be fought in a climate where consumers were finally seeing some benefit from five years of steady, low inflation growth.

But pessimists point out that any upturn in consumer spending might take the lid off the inflationary pressures which have been building in the business chain over the past two years. These inflationary pressures could yet force a further round of interest rate increases. And if this was coupled with a significant rise in public debt as a result of tax cuts – and even a sharper than expected drop in exports – the prospect of a benign recovery could evaporate.

With November's budget still several months away, and some of the economic data sending mixed signals, few City economists are betting on either scenario yet. Nevertheless, the weight of historical evidence showing how quickly good economic news can turn sour in Britain means that the City will watch the chancellor like hawks over the next few months.

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FINANCIAL TIMES SURVEY

INDONESIA

Friday June 9 1995

In August, Indonesia celebrates 50 years of independence. Preparations are already under way; many of the office towers along Jakarta's main thoroughfare have hoisted placards to mark the occasion, with the number 50 up in lights.

President Suharto, the country's apparently indefatigable leader, will preside over the occasion with some sense of achievement. In the 27 years he has been in power, he has fostered a sense of nationhood among most of the country's population of 190m, made up of hundreds of different ethnic groupings scattered over 17,000 islands which stretch to cover a seventh of the world's circumference.

He will look back upon 20 years of steady economic growth, averaging 6.8 per cent annually, during which the number of Indonesians living in poverty has declined to 15 per cent of the population, compared with 60 per cent in 1970. GDP per capita had grown to about $800 last year. The government aims to quadruple this over the next 25 years.

□ Left: Goats await slaughter before last month's Eid Al-Adha celebration – Indonesia is the world's largest Moslem country
□ Above: President Suharto (far right) with some of the leaders of Asia-Pacific countries who, along with US President Bill Clinton, attended the Apec conference at Bogor, near Jakarta, last November
□ Right: Tower blocks in Jakarta's business sector

Pictures: Reuter (Enny Nuraheni and Gary A.Cameron); Marion van Vark

Achievement with the lid on

The economy is forging ahead, but uncertainty persists on the political front, where the presidential succession is the dominant issue – even if discussion of it is officially discouraged, writes Manuela Saragosa

But, while the economy is moving rapidly along the development path – the World Bank has complimented it by including it in its list of "high performing Asian economies" – matters are different in the political sphere.

The issue of presidential succession continues to loom on the horizon, despite talk that the president, now 74, is set to run a seventh five-year term in office following the general elections in 1997.

The chairman of the supreme advisory council recently claimed that he knew Mr Suharto wanted a civilian vice-president, a post currently held by General Tri Sutrisno, and by doing so sparked talk that this must implicitly mean that Mr Suharto will run again.

Mr Harmoko, the information minister and a known Suharto loyalist, has tried to discourage speculation, commenting that discussion of the issue is unethical.

But it is difficult to by-pass an issue which many see as crucial to Indonesia's continuing stable economic growth. Indonesia's last change of president was conducted through a violent, bloody coup, which makes some investors jittery. Any future changes will have to have the backing of the military, which pledges a role in politics even though Mr Suharto has distanced himself from the military in recent years.

The president has said that the political mechanisms are in place to ensure a smooth transfer of power, but he does not give details and is careful not to provoke any premature power struggles.

Meanwhile, a growing middle class, which, according to some estimates, accounts for as much as 16 per cent of the urban population, is increasingly keen on change. Observers note that many are educated abroad, tasting freedoms they do not have back at home.

In recent years, the number of non-governmental organisations has flourished, from environmental lobbyists to legal-aid foundations, and many of them claim to be a more credible opposition to government than the licensed opposition parties.

But President Suharto has made it clear he does not like public debate. His calls for "responsible openness" at the independence day celebrations last year came after the forced closure of three news weeklies, and were followed by the arrests of activists and the expulsion of two of parliament's most outspoken members.

Part of the problem is that politics and the economy are closely intertwined in Indonesia. For example, debate about the future direction of the economy is split between technocrats, who preach tight monetary and fiscal policy, and technologists, or industrialists, who want state funds disbursed on costly high-tech industries.

This split has ensured that "this is one of the most fragmented cabinets ever," notes one political analyst, who says the clampdown on debate is a concerted effort on behalf of the ruling elite to make sure such splits do not spill over into other sections of society.

Moves towards more open public debate, as seen in late 1993 and early 1994, appear to have been abandoned over the past year, but there has been renewed vigour on behalf of the government to open up the economy.

A trade deregulation package, announced in May, broke new ground by setting out a tariff-reduction schedule for the next eight years and making the unprecedented move of introducing across-the-board cuts on over 6,000 products. The government has also taken steps to ease foreign investment flows by eliminating a requirement that all foreign companies divest their shares to Indonesians.

Nevertheless, there has been criticism that deregulation does not go far enough. There is resentment of the government's apparent inability to deregulate some of the more politically sensitive commodities, including soyabeans, sugar, wheat, flour and cement. Controlled through monopolies and oligopolies, prices for these commodities are kept artificially high.

Under its commitments to the World Trade Organisation, Indonesia is only obliged to deregulate soyabeans, but this has not stemmed criticism, most of which has come from Indonesian economists and businessmen.

Again the reasons are political. Many of these commodities are controlled by politically well-connected businessmen, a large number of whom are ethnic Chinese or belong to the presidential circle. The ethnic Chinese are resented because they are estimated to control most of the country's private capital, although they make up less than 2 per cent of the population.

The criticisms are also part of widespread concern that the fruits of consistent economic growth should be spread more equitably throughout the Indonesian archipelago.

Ministers, however, are keen to point out that deregulation will continue. Rising foreign debt, officially $87bn but unofficially closer to the $100bn mark because of the yen's appreciation, have made it more urgent for Indonesia to continue deregulating, so that the country's exports continue to increase in order to finance debt repayment.

Foreign debt, among the largest in the developing world, put severe pressure on the currency, the rupiah, earlier this year in the wake of the Mexican peso crisis. Analysts drew parallels between the two economies, despite the fact that Indonesia's current account deficit, which stood at about $3bn last year, is much smaller than Mexico's.

"Every time there is any economic upheaval, people become concerned about our outstanding debt," says Mr Sudradjad Djiwandono, governor at Indonesia's central bank. "Some people are overly concerned."

Against this background, the past year has seen Indonesia take on a higher diplomatic profile in the world, despite persistent international criticism of the country's record in human rights, workers rights and the politically-disputed territory of East Timor.

President Suharto's international engagements have included the chairmanship of the Non-Aligned Movement, and the hosting last November of the Asia Pacific Economic Co-operation summit, attended by 17 leaders from the region including US President Bill Clinton.

In the former Yugoslavia, Mr Suharto has offered Indonesia's offices to help mediate between warring factions; and at the United Nations, Indonesia has assumed a non-permanent seat within the Security Council and is leading a campaign to change the criteria used to elect the Council's permanent members.

Meanwhile, the listing of the state-controlled international telecommunications firm Indosat in New York also worked to raise Indonesia's international profile. It will be boosted again later this year when Telkom, the state-owned domestic telecoms company, plans to launch a massive initial public offering in a simultaneous listing in New York and London.

A large number of Indonesians, particularly in urban areas, would now like to see increased economic openness and Indonesia's changing profile in international affairs accompanied by more accountable government at home. They may face a long wait.

Mr Ali Alatas, the foreign minister, is among the first to admit that Indonesia is far from its democratic ideals. But he labels calls for western-style democracy "intellectual arrogance". "It will not be, cannot be, the same as the west, because we have a different culture," he insists.

IN THIS SURVEY

The economy: deregulation is crucial, says **Manuela Saragosa**

Matching exports to debt

Ask any foreign or local economist studying Indonesia what the key to continued successful growth is, and the answer is invariably: "Further deregulation of the economy."

The reasons are straightforward. With public and private foreign debt hovering around the $100bn level, making Indonesia one of the largest debtors in the developing world, the government cannot afford to move too slowly on deregulation, because it needs to continue to increase and broaden its export base in order to finance debt repayment.

In addition, the capital investment required to finance the government's various development programmes are huge – the government estimates that it needs about $300bn over the next five years – and most of those funds are expected to come from the private sector, particularly in the form of foreign direct investment.

Indonesia has already made some headway in deregulating its economy, contributing to a preliminary figure of 7.34 per cent GDP growth in 1994 (using 1993 as the new base year), and ensuring that economic growth has continued to average over 6 per cent annually for the past 20 years.

Last year, the government introduced a drastic deregulation package for foreign investment, lifting rules on the minimum investment and on location, and abolishing the requirement that foreigners divest their shares to Indonesians. At the end of May this year, a trade deregulation package was announced which, for the first time, set out a tariff reduction schedule for the next eight years, but many of the most politically sensitive and highly regulated commodities were not included.

Speakers at a three-day conference, co-sponsored by the World Bank in April this year, noted that, although deregulation had created a reasonably liberal trade and investment regime, efforts to deregulate the economy often did not go far enough. A World Bank economist dubbed this "reform fatigue".

The prevailing argument was that Indonesia could not afford to tire now. "Deregulation is a powerful domestic policy tool that can be used to influence exports," said a World Bank paper at the conference. "Indonesia's market share in most non-oil exports, and especially manufactures, is small; policies that affect its competitiveness have a substantial effect on export growth."

The government is working to ensure that export growth can meet the claims made on it by Indonesia's large foreign debt, just over 40 per cent of which is denominated in yen, and which has appreciated hand-in-hand with the strengthening Japanese currency.

Growth in non-oil exports ($bn)

	1988	1989	1990	1991	1992	1993	1994
Total value	11.6	13.9	14.8	18.2	23.3	27.1	30.4
% growth	-	20	6.5	23	28	16	12

Source: Bank Indonesia and Ministry of Finance

At present, the country's debt service ratio stands at just over 30 per cent which, although high, economists say is manageable, because world oil prices are comfortably above the government budget's projected average oil price of $16.50 for fiscal 1996. Oil accounts for about 20 per cent of government revenues, compared with 80 per cent in the mid-1980s.

To keep up its reputation as a good debtor, Indonesia needs to continue expanding its range of exports

Also adding to Indonesia's sound reputation as a debtor is the fact that it has never rescheduled or defaulted on its repayments. "With the image we have as a high-debtor country, we are very much scrutinized by world financial centres, so we want to show we are prudent," says Mr Sudradjad Djiwandono, the governor of the central bank, Bank Indonesia.

To keep up its reputation as a good debtor, Indonesia needs to continue expanding its range of exports. In order to guard against fluctuating oil prices in the future. However, "the base of non-oil exports isn't as strong as it might be," notes one Jakarta-based economist. Last year saw a slowdown in non-oil export growth to 12 per cent, from just over 16 per cent in 1993.

That drop in growth was caused by falling plywood exports and a decline in the value of textile and garment exports – the three rank as Indonesia's largest foreign exchange earners. World textile prices have since climbed back, but the prospect for plywood and garments appears less rosy.

Economists note that export volumes for garments have dropped, indicating that Indonesia may have lost its comparative advantage. The plywood industry has created the most controversy, with the minister of trade, Mr Satrio Joedono, blaming the marketing techniques of the plywood trade association (Apkindo) for Indonesia's rapidly diminishing world market share.

Apkindo is controlled by Mr Bob Hasan, the country's most prominent forest concessionaire, who is known to be close to President Suharto. While Mr Hasan insists the drop is due to economic recessions in Indonesia's main plywood markets – Japan, South Korea and the US – others blame a system under which plywood producers cannot export directly but must sell through Apkindo's overseas offices.

It is cartels of this kind, which a World Bank paper refers to as "pockets of monopoly and oligopoly in the economy", that economists are urging the government to dismantle. Monopolies affect key agricultural commodities such as soyabean, sugar and flour, and products such as cement and various petrochemicals. They cause prices to be artificially high, thereby raising costs for the consumer.

Government officials acknowledge that deregulating these industries will not be easy. "We have not tackled some of the most difficult areas of deregulation," says Mr Saleh Afiff, the state co-ordinating minister for economy, finance and development. "In some cases, we still face government-granted monopolies, high tariffs, investment restrictions and other regulatory measures that harm our exports and growth."

But, like many other ministers, Mr Afiff indicates that the government is aware of the need for further deregulation. Last year's foreign investment deregulation package was aimed at stimulating investment in export-oriented industries. Approvals hit a record $23.7bn, compared with $8.4bn a year earlier, but historically only a third of approvals are realised.

It is too early to say whether the foreign investment deregulation package will broaden the export base and contribute to the massive private funds needed to develop the infrastructure, but economists say the two are inextricably linked.

The country needs more roads, telecommunication lines, ports, railways and power stations, both to sustain development and to ensure that it is spread equitably throughout the archipelago. "We have come to the stage where infrastructure needs to be developed, to get the foreign investment to boost non-oil export growth," says Mr Hadi Soesastro, a prominent Indonesian economist.

Mr Djiwandono agrees that foreign direct investment is becoming an increasingly important source of finance for development, because the government has clamped down on state bank lending in an effort to reduce its foreign debt burden, and is discouraging private businesses from borrowing offshore.

"Development can only be continued if infrastructure is in a better state," he says. "I guess that's the challenge we have to face."

Politics: is the judiciary really asserting its independence?

Critics distrust 'one-man show'

When a judge in Jakarta ruled that a ministerial decree which had banned three news weeklies last year was unlawful, journalists and dissidents packed in the hot, stuffy courtroom burst into spontaneous applause and laughter. None of them had expected the surprise verdict.

Soon after that, Indonesia's Supreme Court surprised everyone by exonerating six people convicted of the widely-publicised 1993 murder of Miss Marsinah, a labour activist. The convicted had alleged that they were forced to confess to the crime after being tortured; and critics say that the military's role in Ms Marsinah's murder has never been properly investigated.

Indonesians were surprised again a few weeks later when Mr Muchtar Pakpahan, leader of the country's only independent trade union, was freed from jail on a legal technicality after he had received a three-year sentence for allegedly inciting workers to riot in the north Sumatran town of Medan last year. Mr Pakpahan had denied his involvement, pointing out that he was in a different town at the time.

The three cases are the highlights of an extraordinary few months in Indonesia's legal history. Former editors and publishers of the banned magazines hailed the decision to overrule the bannings as "historic". As one newspaper editorial put it: "The judges have rejected the long-held notion that this country is corrupt and has fallen under the spell of power."

But are these truly signs that Indonesia's judicial system is asserting its independence, and perhaps even signalling a change in the way the political system works? Many hope so, but few believe it is. Indonesia's courts are administered by the ministry of justice, which means employees, judges and public prosecutors receive their salaries from the executive branch – embarrassing the government with a verdict could affect careers and salaries.

Jakarta-based lawyers note that the most recent developments in the cases of Mr Pakpahan and Ms Marsinah coincide with the International Labour Organisation's annual meeting, scheduled for next month and during which Indonesia is expected to come under criticism for its record on workers' rights.

Meanwhile, following the court's ruling against the ministerial decree which banned the news weeklies Tempo, Editor and DeTik last year, Indonesia's minister of information has said he will appeal against the verdict. Analysts note that if the bannings had been implemented by presidential decree, as opposed to ministerial, the prosecutors would have stood little chance of winning their case.

President Suharto: will he step down in 1997? Enny Nuraheni/Reuter

While ministers may be challenged, the president remains untouchable. "This country is still run as a one-man show," says a Jakarta-based political analyst. "And the president is above the law."

Late last year, for instance, a group of Indonesian environmentalists tried to sue President Suharto for issuing a decree which allowed about $200m in state money from a reforestation fund to be diverted to developing the country's national aircraft industry. The Jakarta court told the prosecutors that it had "no authority" to preside over the case.

Political observers say that as long as the president effectively stands above the law, little will change in Indonesia's political system. Policy formation is ad hoc, sometimes including ministries and sometimes not, and almost all policy decisions must be approved by the president before they are implemented.

President Suharto seems content to let the various factions in government and society play off among themselves, intervening only when his position is called into question. Confrontational debate is not his style, and in a revealing statement he described the vociferous demonstrators who harassed him in Germany during his visit at the Hanover Trade Fair as "insane and no longer rational".

Analysts say his cabinet, which was appointed following the general elections in 1993, is one of the most fragmented yet, and that this explains why a clampdown on public debate has prevailed over the past year.

Earlier this year, the president endorsed the expulsion of two vocal politicians from parliament, at a time when parliament was showing occasional signs that it was taking steps to become a forum for genuine debate, featuring clashes between technocrats, who want to keep a lid on state spending, and technologists, who want state funds to build up high-tech industries.

A number of activists and journalists, known for their outspoken views against the government and their persistent calls for more open, uncensored, debate, have been arrested and are awaiting trial.

The clampdown on dissent comes at a time when there is speculation that Mr Suharto has no intention of stepping down at the next general elections in 1997. In what amounts to a national sport in second-guessing the 73-year-old president's next move, Indonesians point to snippets of evidence ranging from statements made by his closest advisers to reading between the lines of his speeches.

The president's family has been particularly active over the past year in sweeping up large business contracts – including the construction of petrochemical plants, oil refineries, toll roads and ports – and taking steps to list publicly their companies. Businessmen say this is an attempt to entrench themselves firmly in the country's economy and safeguard against the future, indicating that even if succession is not an immediate prospect, the issue remains on everyone's mind.

Foreign investors' main complaint about the Indonesian political system – besides the lack of rule of law which makes enforcing business contracts difficult – is the uncertainty surrounding the president's succession. The president has repeatedly said a mechanism is in place to ensure that a smooth succession takes place, but he does not elaborate, and a history of turbulent exchanges of power do not provide an encouraging precedent.

In the words of one veteran analyst of Indonesia's politically-sensitive stock market, Mr Eugene Galbraith, president of HG Asia: "Although there is no vacuum in political leadership in Indonesia, the question of leadership succession is an increasingly important subtext in all domestic political debate."

Manuela Saragosa

Nahdlatul Ulama is Indonesia's largest Moslem organisation

A force to be reckoned with

Stained walls, old musty furniture and peeling wallpaper greet visitors at the headquarters of Indonesia's largest Moslem organisation, known as the Nahdlatul Ulama.

Located off the main road in one of Jakarta's busiest districts, the heat and car exhaust fumes from the road outside waft in through its open glass doors, settling lazily into the fabric of the couches and chairs which line its entrance.

By any measure, it is hardly the kind of nerve-centre one would associate with a powerful pressure group that counts between 30m and 35m members nationwide. And yet the NU is taken very seriously by a government, which is sensitive to anything that could threaten its political control.

Although Islamic fundamentalism has never taken root in Indonesia, Islam remains a force to be reckoned with. Some 90 per cent of Indonesia's 190m people profess to be Moslem, making it the largest Moslem country in the world. The NU, which preaches a moderate form of Islam, claims to be a non-political organisation, but even its popular, charismatic leader, Mr Abdurrahman Wahid, does not deny that Islam has a political role in Indonesia.

"We are the biggest organisation [in Indonesia] and once you can point out that you are supported by us, then you have credibility in the eyes of the population," explains Mr Wahid. "The government needs our support for its development plans, from family planning to education. That means we are treated as a political force to mobilise support for the government."

The NU's basis of support is with the peasantry and manual labourers, and it is therefore particularly strong in rural areas in predominantly Moslem regions of Indonesia, such as Java and Sumatra.

Not surprisingly, Mr Wahid's openly sympathetic overtures towards Ms Megawati Sukarnoputri, the leader of the licensed opposition party, PDI, and the daughter of the late president Sukarno who was ousted by the current president in 1965, is cause for concern for the ruling elite.

It is particularly disturbing to the establishment, because President Suharto has taken careful steps to separate Islam from politics ever since he assumed control. In the years following his takeover of power in 1967, all the political Islamic parties were told to merge into one licensed opposition party, the United Development Party, known as the PPP.

In what amounted to a politically astute move, the Nahdlatul Ulama, part of the politically weak PPP at the time, separated itself from the PPP in 1984, claiming that it wanted to withdraw from politics.

The NU claims to be non-political, though its charismatic leader does not deny that Islam has a political role in Indonesia

Under an ostensibly non-political banner, the NU has been far more effective as a pressure group, working both for and against the government's interests. It wins brownie points with the government and military, because it preaches a moderate form of Islam, based on the Sunni creed – the military and Mr Suharto's government have always had a deep aversion to fundamentalism.

In a country that is still in the process of developing a sense of nationhood among its hundreds of different cultures and many religions – including Buddhists, Hindus and Christians – Islamic fundamentalism threatened to disrupt the delicate fabric of Indonesian unity. Moreover, Islam is itself divided in Indonesia. Traditionally in Java, the most densely populated island, a distinction is drawn between the *santri* and *abangan* adherents to the Islamic faith – that is, between devout followers of Islam and the Islam adhered to by the ruling classes.

In turn the *santri* are divided between those who preach a traditional approach to Islam, combining Islamic rituals with centuries of Hindu and Buddhist myths and traditions which preceded the arrival of Islam in Indonesia; and modernists, who preach a purist form of Islam, discarding the influence of Buddhism and Hinduism.

But while the NU, which groups traditionalists, has the kind of moderating force on Islam which the government appreciates, it also has the potential to disrupt support for the government, according to Mr Wahid.

Mr Wahid says that, at a district level, members of Golkar, the ruling party, keep up good relations with local NU representatives, because with the NU's large membership in rural areas, local politicians need the NU's backing to win votes.

On the national level, the ties between Golkar and NU are not as intimate. At a time when there is growing resentment at the length of President Suharto's rule over the country, the flirtation between NU and the PDI, for instance, has had the ruling elite up in arms.

Although Mr Wahid denies that an alliance between the PDI and the NU is in the offing, the two are seen to be on the same side of the political fence, creating fears among Golkar members that the NU will campaign for its members to vote for the PDI at the next general elections in 1997.

Mr Wahid says he has had visits from various military commanders over the past five months, who have pressured him to resign. Meanwhile, Mr Harmoko, Indonesia's information minister and a recognised Suharto loyalist, has been zig-zagging his way throughout the archipelago campaigning for Golkar at a grassroots level.

Mr Wahid's argument is that the ruling elite's obsession with his overtures to Ms Megawati Sukarnoputri are unfounded, because the NU's position is "to stay neutral in political affairs". That some people see his role as mentor to Ms Sukarnoputri as a political line "is their problem, not mine".

However, the line separating the NU's influence in politics and its purely religious function is thin – Mr Wahid insists that the future role of Islam and the NU in Indonesia is to act as a kind of moral arbitrator in politics. On the issue of workers right, for instance, the NU is helping to campaign for adherence to the minimum wage, "not to play political games, but because we have a moral obligation to help them [the workers] get their rights," Mr Wahid says.

With the government firmly opposed to any form of Islam becoming a political institution, the NU looks set to remain a powerful player on the sidelines of Indonesian politics. It is a prospect which appeals to the moderation the NU preaches in its Islam, and Mr Wahid stresses that he is committed to the NU's non-political status.

"As long as we follow this kind of position, there is no danger that Islam will become a political alternative to government," he says.

Manuela Saragosa

Industry: the cheap-labour advantage is under pressure, says **Nikki Tait**

Technology holds the key

Anyone seeking to encapsulate the debate over Indonesia's industrialisation policy should take a look at the N-250 aircraft.

According to some government officials, the country is poised to set up an assembly plant for this medium-range commuter aircraft in Mobile, Alabama. The facility would be a joint venture between IPTN, the state-owned aircraft company, and some unidentified international interests.

Basic parts for the N-250 would be made in Bandung, in west Java. But the presence of a US assembly plant would then augment a similar arrangement in northern Germany, and give IPTN a base for selling in western markets.

Or so the theory goes. A prototype of the N-250 aircraft has yet to take to the skies; it still requires US Federal Aviation Authority certification; and both plants are agreed in principle only. Moreover, Indonesia's attempts to develop a commercial aviation industry are highly controversial.

Critics ask whether Indonesia should be allocating resources to high-tech showcase projects when 15 per cent of its 190m people live in poverty and an estimated $50bn investment is needed in infrastructure over the next five years. IPTN, they argue, is inefficient and loss-making, despite the hundreds of millions of dollars spent on its development over the past two decades.

The advocates' response is that technological transfer is essential to a country whose comparative advantage in terms of cheap labour is under pressure, and whose rich natural resources may not last forever. Moreover, Indonesia consists of a host of far-flung islands, so that an aviation sector has some domestic relevance.

Where more agreement lies is over the distance already travelled by Indonesia in terms of industrialisation. Three decades ago, the economy was generally written off as a rural basket-case. Even in the immediate wake of President Suharto's ascension to power, Indonesia remained heavily dependent on natural resources – notably oil.

But in the decade to the early 1990s, partly spurred by the collapse in oil prices, non-oil manufacturing almost doubled in significance. By 1992, according to the World Bank, it accounted for about 16 per cent of gross domestic product. Equally important, non-oil exports grew from under one-quarter of the total to almost two-thirds over the same period, with non-oil manufactures representing about 45 per cent of all goods sold abroad. Recently, manufactured exports have been expanding at about 26 per cent a year.

Even so, free-marketeers and interventionists battle to claim credit. The favoured mantra of multinational agencies, and of some western academics, is that the broad policy settings have been increasingly favourable, allowing private enterprise and inward investment to flourish.

In the decade to the early 1990s, non-oil manufacturing almost doubled in significance, until the World Bank said it accounted for about 16 per cent of GDP

For example, Mr Hal Hill, an economist at Australian National University, told a World Bank-sponsored conference in Jakarta earlier this year that very little had been derived from selective industrial policy. He said that Indonesia's success was "the result primarily of the adoption of orthodox policies in the realm of macro-economic management, exchange-rate policy, and the provision of public goods, such as social and physical infrastructure, together with political stability and security."

But not everyone concurs. Much of counter-argument, which attributes a greater role to Indonesia's more interventionist tactics, centres on Mr B.J. Habibie, the country's influential, German-trained minister for research and technology. For over a decade, the Habibie approach has been to nurture a clutch of "strategic industries", ranging from aviation ventures, such as IPTN, to shipbuilding and steel, partly for their own value and partly for their trickle-down effect.

"Dr Habibie is trying to teach Indonesians to outreach themselves with technology," says Professor Harijono Djojodihardjo, in charge of technology development at BPP Teknologi, the government-run technology assessment centre which forms part of the Habibie enclave. "Because of the long colonial past, the morale of the people has been deformed. In many ways, people believe technology is not part of their life."

And, despite the generally unsatisfactory financial performance of these investments, some private-sector economists think the Habibie camp has a point. For example, Mr Hartojo Wignjowijoto, at Asian Pacific Economic Consultancy Indonesia, says that the "strategic industries" should not be judged in balance-sheet terms alone – although he also acknowledges that there are areas where operations could be improved.

But while the debate about the reasons for Indonesia's progress is largely academic, the question of how the country moves on from here is not. The scale and demographics of its population mean that well over 2m people are likely to enter the workforce each year for the foreseeable future.

In order to absorb that number, and to maintain or boost living standards, economists reckon that Indonesia's economy needs to grow by about 7 per cent a year. Annual growth in the manufacturing sector needs to be higher still, at around 10 per cent.

One big problem is that the pool of cheap labour is becoming less cheap, just as other countries in the region – including Vietnam, China and India – are starting to open up to foreign investment. Minimum wage rates almost tripled in the five years to end-1994.

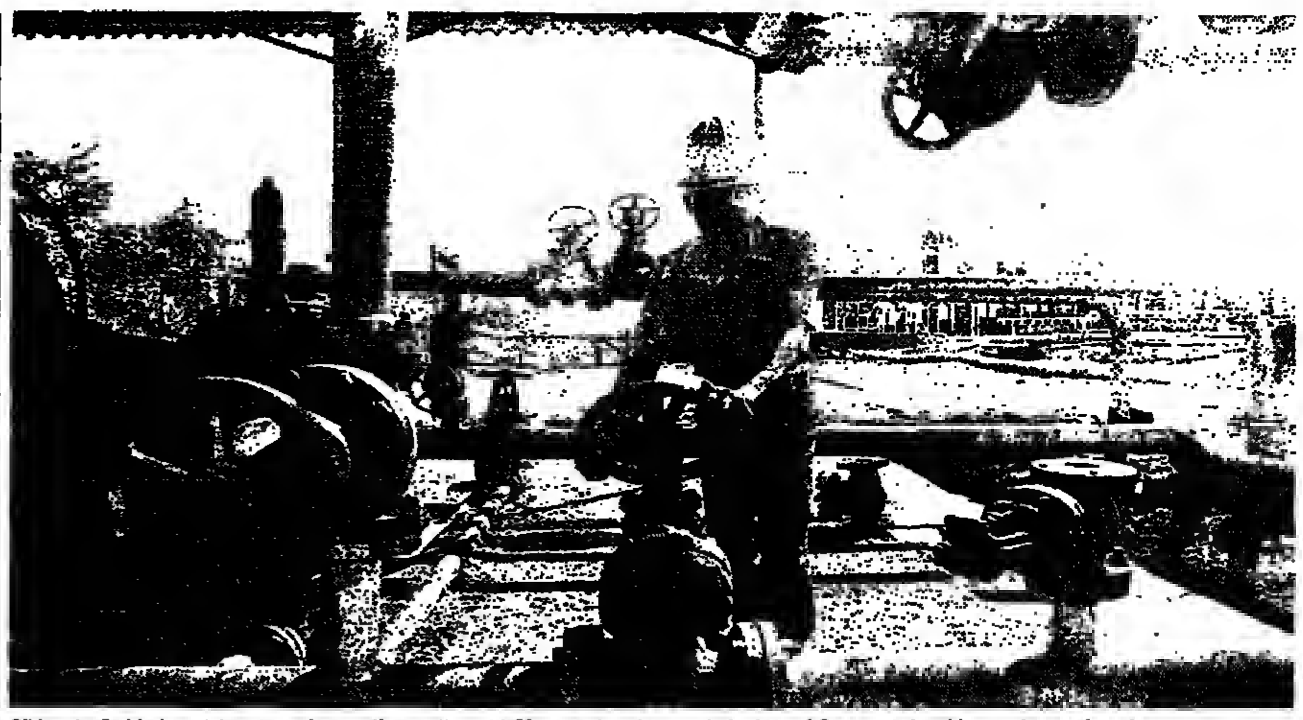
Tha question is how – and how quickly – can the country's manufacturing sector leap up the "value-added product" ladder. Again, World Bank officials urge a steady course, to be facilitated by a framework of increasing deregulation, a lowering of tariff barriers and greater business transparency. "Bread-and-butter industries, like textiles, will be the stables for o long time to come," is one unofficial comment.

But they also point to the electronics sector as a good example of what Indonesia can realistically hope to achieve through this type of approach. For years, the country's electronics industry was thought to lag badly behind those of its Asian neighbours. Its focus was almost exclusively domestic, and it was both inefficient and protected. In 1989, electronics output accounted for only 0.5 per cent of GDP – compared with 5 per cent in the Philippines and over 15 per cent in Malaysia.

However, on the back of general trade and investment reforms and new export-oriented foreign investment by the likes of Matsushita and Sony, production rose sharply in the early-1990s. The sector's output, which had stood at under $500m in 1985, increased to around $2bn by 1993. Exports accounted for about 60 per cent of domestic production.

The one area which both sides agree is critical is infrastructure. Indonesia's crying needs on this score are hard to miss – witness recent port blockages which have bedevilled even the established footwear manufacturing sector. The ministry of public works has forecast that $53bn needs to be invested in telecommunications, power, transport and water supply projects during the 1994-9 period covered by the current five-year plan. The private sector, it suggests, will contribute at least $18bn.

In "real" terms, that means 8m telephone lines and an increased switching capacity of 5m line units; new rail networks for Kalimantan and Sulewsi; 244,000km of new and upgraded roads; and numerous power projects. Somehow, an aircraft plant seems very small in comparison.



Oil has fuelled Indonesia's economic growth over the past 30 years, but the country's days of Opec membership may be numbered Paul Forster

Manuela Saragosa examines the declining importance of oil exports

Cost discourages exploration

Indooesia is the only Asian member country of the Organisation of Petroleum Exporting Countries, but its days as a member may well be numbered.

At an Opec conference hosted in Bali in November last year, President Suharto told delegates that the importance of oil in Indonesia's economy is declining. "Unless new reserves are discovered, Indonesia will soon become a net oil-importing country. Should this happen, Indooesia will no looger have the right to be a member of this well-respected Opec," he said.

While oil has been the fuel of Indonesia's economic growth over the past 30 years, since 1988 non-oil exports have surpassed oil exports in terms of government revenues, accounting for only 20 per cent of revenues last year compared with 80 per cent a decade ago.

There is however, considerable sensitivity about when Indooesia will become a net oil importer. An annual petroleum report, produced by the US Embassy in Jakarta, predicted that Indonesia's rapidly increasing energy consumption levels would exceed falling production "as soon as the early part of the next decade, and...doubtlessly...within the next 20 years."

Other oil industry executives say they see the scenario occuring in 2005, with oil production falling below a 1m barrels a day by 2000, compared with current production levels of aboot 1.5m b/d.

Oil and gas in domestic revenues (Rp bn)

	1990/91	1991/92	1992/93	1993/94
Oil & gas revenues	17,712	15,039	15,330	12,508
Non-oil/gas revenues	21,834	25,546	32,122	39,772
Other	9,905	10,409	10,716	10,372
Total revenues	49,451	51,994	58,168	62,652

Source: Bank Indonesia

Bnt much depends on the discovery of new reserves. Analysts oote that the eastern parts of the archipelago are largely unexplored, and that as the government has turned its focus on developing a non-oil export base, little has been done to encourage any significant oil exploration.

The crux of the problem lies in the cost-recovery mechanism the government operates. Companies drilling exploratory wells in areas where production is already ongoing can claim tax relief on the costs of exploration. But in what are known as "high-risk frontiers", such as eastern Indonesia, the cost of the risk is borne solely by the oil company.

The money involved is substantial – drilling a well in eastern Indonesia can cost as much as $40m, according to some estimates, mainly because the lack of infrastructure raises logistical costs. Not surprisingly, in 1993 only six of the 19 exploration wells drilled were in eastern Indonesia and none of them produced a significant discovery.

Industry executives say Pertamina, the state-owned oil company which supervises the activities of more than 100 domestic and foreign oil and gas contractors, is aware of the need to introduce exploration incentives, but that the government, busy stimulating non-oil export growth, is not.

In March this year, the Indonesian Petroleum Association, which includes both foreign and local oil and gas contractors, presented the government with a white paper in which it requested that a new tax consolidation method be adopted, in which the risks of exploration would be shared equally by the government and oil companies.

However, asking the ministry of finance to reduce tax collection from the oil and gas sector when the outlook for non-oil exports is not as certain as it might be is "a tough question, a tough decision," says an executive with a US oil company.

The oil and gas industry's argument is that, although a new risk-sharing arrangement may deprive the government of revenues in the short-term, there are other long-term benefits to be considered. But there is little optimism. "Gradually we are taking what I call a back-seat position," says the executive. "That is the way I see the direction of oil in Indonesia."

Banking: **James Whittington** on the taming of bad debt

New rules are welcomed

"You can get credit faster than a haircut," trumpeted Bank Internasional Indonesia, the country's third largest private bank, during a recent marketing campaign for housing loans.

The enticing flippancy of the claim neatly sums up the recent history of banking in Indonesia, where most institutions have been virtually falling over themselves to meet the country's voracious appetite for capital.

The race began following deregulation in 1988, when the government opened up the banking system to new entrants. The number of banks and branches proliferated and credits soared, as everyone and anyone with access to the then minimum capital requirement of only Rp5bn ($2.8m) set up shop. Total bank credits jumped from Rp42,000bn to Rp190,000bn between 1988 and 1995, while the number of banks, excluding the state's small regional development banks, more than doubled from 112 to 243.

Without a proper supervisory framework, however, this rapid growth, combined with a severe shortage of trained and experienced bankers, quickly led to problems of asset management and bad debts. In 1990, shortly after listing on the Jakarta Stock Exchange, Bank Duta had to be rescued by the government when foreign exchange losses wiped out its capital. A year later, a tightening of the government's monetary policy, which drove lending rates to a high of 35 per cent, exposed many banks to their poor credit controls. At the end of 1992, the banking system was rocked by the collapse of Bank Summa, which was forced into liquidation after companies within its own conglomerate, Astra Group, defaulted on loans.

By this time Bank Indonesia, the central bank, had already launched a drive to strengthen bank balance sheets by setting the internationally accepted minimum capital adequacy ratio of 8 per cent and a rather higher than normal target loan-to-deposit ratio of 110 per cent. The minimum capital to open a bank was gradually raised to Rp50bn.

Meanwhile, the five state commercial banks, which traditionally dominated lending activity, were asked to reduce their portfolios on existing credit. In addition, a special team of officials was set up within the central bank and given the mammoth task of closely monitoring all the banks and, in particular, told to assess the extent of bad debts and non-performing loans.

A further banking scandal, involving the state's Bank Pembangunan Indonesia (known as Bapindo) helped to

Bank Indonesia encouraged stronger balance sheets Marcel von Vark

highlight the government's call for more prudent banking. In early 1994, it was revealed that the bank had bad debts of over Rp1,300bn from a loan extended to an ethnic Chinese businessman, Mr Eddy Tansil, and his Golden Key group. The subsequent high-profile court case ended in jail sentences for Mr Tansil and a number of the bank's directors, while further investigation uncovered other credit problems, including bad debts to the textiles company Kanindo Prima Perkasa.

As a result of more sensible regulations and increased awareness among bankers, most analysts in Jakarta believe that, while problems still exist, the system has improved dramatically.

"Through the use of moral suasion and more prudent regulations, our message is getting through ... but we still need to show more caution and discipline," says Mr J. Soedradjad Djiwandono, the central bank governor.

Nearly all the banks, with the exception of number of state banks and a few smaller private banks, have met the minimum capital adequacy requirements – the average is 10.4 per cent. But the central bank is urging some of the smaller private banks to consider merging with better capitalised ones. It is also calling for further restraint in lending as the growth of deposits has lagged behind the expansion of credit. At the beginning of 1995, the average loans/deposits ratio exceeded the central bank's guidelines by hitting 112 per cent, although the private sector loans/deposits average is 98 per cent.

The main concern, however, still revolves around the level of bad debts and problem loans. Bad debts have increased from Rp6,000bn, 3.3 per cent of total credits at the end of 1993, to Rp7,400bn, or 4 per cent of loans at the end of 1994, partly due to the mess at Bapindo. Over the same period, problem loans (which have not been serviced for three months) have declined from 9.9 per cent of outstanding credit to 9.14 per cent. But last year's surge of lending to real estate projects in Jakarta has raised eyebrows, especially as many believe the property sector has reached its saturation point.

With the state banks in relative decline, the country's largest private banks have rapidly expanded their market share. By the end of last year, local private banks had overtaken state banks in lending activities for the first time after a 41 per cent growth in lending gave them a 47 per cent share of total outstanding credit. The state banks retained a 41 per cent share following lending growth of only 11.7 per cent. Foreign banks account for 7.8 per cent of total loans, and are frustrated by a regulation which forces them to extend 50 per cent of their credit to exporters. On the deposit side, the private banks gained 52 per cent of total deposits of Rp169,000bn, compared with 39 per cent held by the state institutions.

"The top private banks are becoming very competitive, especially in consumer banking where they are placing more emphasis on the customers needs," says Mr Parveen Ghandi, vice-president at the listed Bank Bira. The sharing of ATMs (cash machines) is rapidly taking off, and Bank Bali, another listed bank, has been the first to introduce Direct Banking, which allows customers to make transactions over the telephone.

Private banks are also trying to make inroads into fee-based income, which has traditionally been dominated by the foreign banks. Bank Bira, for instance, has been particularly active in the loans syndication market, and recently overtook Citibank's lead in the local commercial paper market.

Finding well-qualified and experienced Indonesian bankers, however, is still a limiting factor to the sector's development. Many of the top and middle management are expatriates, particularly from the Philippines, Singapore and India. The central bank has set a minimum 5 per cent of personnel costs to be allocated to training. But according to one foreign banker, most banks are not spending anywhere near this level. "The banking sector has grown faster than anyone could have imagined, and time and money is needed for the personnel to catch up. The training of Indonesians in banking should be a priority," he says.

The stock market: computerised trading arrives

New system will multiply deals

The Jakarta Stock Exchange was launched into the computer age on May 22, with the opening of a much-anticipated automated trading system at its new headquarters in the Sudirman Central Business District.

Despite some apprehension among traders, after a series of delays and technical errors occured during trials, the switch-over proceeded with only a few minor hiccups.

Great expectations revolve around the computerisation. And although many people are still holding their breath, the exchange's authorities are quietly congratulating themselves *on their success so far.*

The system embraces a range of trading, clearing, central depository and brokerage-account functions. It will allow as many as 50,000 transactions a day, compared with the average 3,800 carried out by hand under the old system, and will eventually lead to paperless trading. It should lower transaction costs, reduce human error and enhance the flow of information to traders and investors. The stock exchange also hopes it will improve investor confidence and increase market liquidity.

Mr Bacelius Ruru, chairman of the capital markets supervisory agency (Bapepam) goes as

> The stock exchange hopes that investors' confidence will be improved and that market liquidity will be increased

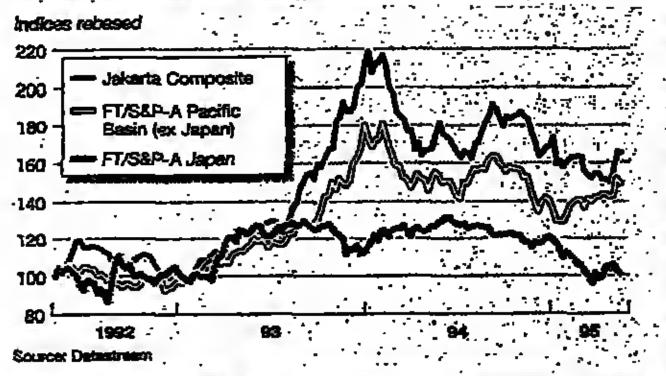
far as saying that the automated system, combined with a long-awaited update of the 1952 securities law, will lay the foundations for Jakarta to become one of the largest and most active stock exchanges in south-east Asia by 2000.

More pressing expectations, however, are that the changes will arouse more local interest in trading equities. Although local investors own the lion's share of the 224 listed companies, as much as 80 per cent of the average $47m in daily turnover is conducted by foreign institutions. Through an envisaged network of screens in shopping centres, cafes, banks and brokerages, "we will be able to move closer to the Indonesian investor and link-op with the outlying regions," Mr Ruru predicts.

Foreign brokers in Jakarta tend to less effusive about such visionary thinking. "The new stock market will have absolutely no effect on the domestic investor," says Mr Andrew Vaughan, at GK Goh Ometraco, who argues that, while deposit rates remain high, there is little incentive for local institutions to brave the volatility of Indonesian stocks.

Mr Eugene Galbraith, president of HG Asia Indonesia,

How the market has moved



Source: Datastream

Brokers pray before the opening of the new exchange Enny Nurahani/Reuter

explains that "a cultural transformation" needs to take place before local investors play a prominent role in the bourse. "There is no real professional fund-manager community amongst the locals. Those that exist adopt the line of least resistance," he says. Moreover, the necessary investment vehicles for local investors, such as mutual funds, are still not commonplace.

Another function of the new law, to be implemented at the beginning of 1996, will be to strengthen existing provisions for the establishment of open-ended funds.

A further disincentive for locals is the relatively high cost of investing on the Jakarta exchange. The nominal value of shares is Rp1,000, but the minium lot is 500 shares. With per capita annual income of around Rp1.8m ($800) and most share prices running well above the cheapest possible Rp500,000 per transaction, equity investment requires far more resources than most can afford. Mr Ruru would like to see the minimum lot reduced, but says there are no current plans to do so.

In common with other markets in the region, investor sentiment was bruised in 1994, with rising interest rates in the US and the Mexico devaluation crisis. The local index closed, down 23 per cent in dollar terms, at 470 at the end of the year, and continued to fall at the beginning of 1995. This pushed the market down to an attractive valuation of 14.3 times 1995 earnings, which helped trigger a renewed flow *of foreign funds into* Indonesian equities last month.

Last year's performance was also depressed by the huge volume of capital raised, as 45 companies joined the market *and numerous others held* rights issues. In total, more than $4.5bn was raised in 1994, which helped increase the market's capitalisation to over $50bn.

The largest initial public offering was Indosat, the state-owned telecommunications giant, which listed jointly in Jakarta and New York. Analysts expect the second half of 1995 *to see another flurry of* corporate fund-raising, boosted by planned privatisations of the other state-owned telecoms group Telkom, the PLN electricity company and the Jasa Marga toll road.

Most brokers expect to see the market grow exponentially, with some forecasting volume increases of as much as 10 times over the next four years. Despite this, its long-term success as an efficient source of capital depends to some extent on the authorities' ability to implement more stringent disclosure requirements and increase transparency in the system.

Problems of insider trading

> Brokers expect the market to grow. Some forecast volume increases of as much as 10 times over the next four years

and suspected fraud are widespread in *Jakarta*, and Mr Ruru explains that one of the main functions of the new securities law will be to give Bapepam the powers to crack down on these activities. "Although we *know* there are frauds, we have not been able to act, because there have been no complaints as yet," he explains, somewhat cryptically. The new law will allow Bapepam to initiate and carry out its own investigations.

Hand-in-hand with this is a need to set a minium amount of shares which must be made available to the public in any flotation. Current practice is that companies sell well below 50 per cent of total shares, which they quietly buy back and then continue to run their own affairs as a privately-held company.

Foreign brokers say that attitudes are slowly changing. But as in any rapidly developing economy, vested interests will continue to hold on to whatever advantage they have. Until the regulatory environment is improved, they, too, will continue to gain from the rather informal channels of market information.

James Whittington

Nikki Tait explains the thinking behind a new ore-mining partnership

Freeport hands RTZ a slice

"You're a kid, and you get a pizza that's too big for you to eat by yourself. So you find someone to share it, who can give you another pizza when it's finished..."

Sitting in the isolated mining village of Tembagapura, John Macken, operations manager of Freeport-McMoran's giant copper-gold mine, summarises a complex financial deal. It will see Britain's RTZ, the world's biggest mining company, partner US-based Freeport in its future developments in the ore-rich mountains of Indonesia's Irian Jaya province.

For two decades, Freeport's Irian development has been viewed as one of the mining industry's most remarkable engineering feats – albeit, one of the most controversial. Now, change is in the air. Facilities at the mine have been expanded as Freeport has shifted from mining the original Ertsberg deposit to the neighbouring Grasberg site over the past five years. The deal with RTZ, announced in March, promises more upheaval.

RTZ is paying upwards of A$450m ($328) for a minority stake in Freeport Copper & Gold (FCX), the US-listed parent of PT Freeport Indonesia (PTFI) – financial ballast which allows Freeport-McMoran, the ultimate parent, to proceed with its plan to spin out FCX as an independent entity. At the same time, RTZ is offering to fund further development by PTFI, to the tune of $850m. In return, it will get a 40 per cent share of the resultant cash-flows (once its outlay has been repaid with interest).

The reasons for bringing in a new partner at this stage have been described as partly financial and partly operational. As the pizza analogy attempts to explain, Freeport cannot absorb everything that is currently on its plate – or, at least, not at the desired rate. Some $100m of RTZ's $850m is earmarked for exploration, and will effectively fund this activity for the next two years. Freeport also acknowledges its partner's substantially greater experience of large mine operations.

Already, there are some indications of what this may mean in practice. In early May, the new partners announced a feasibility study, to look at the possibilities of lifting mining and milling capacity within the

> **Executives believe the mine is seen as a symbolic target by Irianese separatists, but is not itself a matter of grievance**

original Block A operation from around 118,000 tonnes a day to between 175,000 and 200,000. A few weeks later, Freeport also told US analysts that one option might be to use the "below cut-off grade" ore, which is currently being treated as waste at the Grasberg pit, to provide the added feed. Alternatively, ore bodies in the surrounding area might be developed.

This expansion within the original permit area, moreover, would be in addition to anything which results from the ongoing exploration activity in the vastly bigger Block B, and in the concessions being investigated by Eastern Mining, a joint venture between Freeport and local interests.

The big quandary, however, is local politics. The inaccessible Ertsberg deposit, discovered in the 1930s, was first assessed by Freeport in 1960. But Indonesia's Sukarno regime was under pressure, and the status of West Irian (only ceded by the Dutch in 1963) uncertain. The US company shelved development.

In late-1965, shortly after President Suharto took over, the project was reactivated – making it a cornerstone western investment, and major source of tax revenue, in one of the country's most fractious provinces. Sporadic guerrilla activities by Irianese separatists plagued the mine in the late-1970s, causing the pipeline to be cut at one stage.

The recent upgrading of the mine has not gone unopposed, *either. According* to a *report* by the Australian Council for Overseas Aid, there were demonstrations by villagers and members of the West Papuan Liberation Movement around the mine throughout the second half of 1994. The ACFOA, citing "eyewitness" reports, claims that three dozen people were either killed or disappeared during this period. While the figure is denied by the Indonesian authorities, some "encounters" between armed forces and demonstrators have been acknowledged, as have "a number of casualties".

Freeport executives believe the mine is being used as a symbolic target by the Irianese separatists, and is not, in *itself*, a matter of grievance. Nevertheless, last month an environmental action was filed, expressing concern at the impact of mine waste on local rivers.

In reality, the situation owes much to the dramatic contrast between the western technology employed by the mining company, and the primitive living conditions of the tribal clans who are the area's natural inhabitants. Moreover, during the past two decades, Freeport has not just dug out ore. It has built transport, housing and power facilities in land considered to be either jungle or inhospitable mountain. It has even carved out a golf-course.

A few years ago, the company started to restructure these activities, generally hiving them off into dom*estically-controlled joint* ventures. This process had a financial motive. Steve Jones, the first senior finance executive to be posted to the mine site, says about $650m should be raised when the process is complete. But he also acknowledges that, while the company is seeking to bring a "business perspective" to its operations, it needs to be seen to be playing an acceptable "social" role, "opening up the area" to local development.

Yet it is hard to envisage the mine remaining anything but a conundrum. Freeport operates under a contract of work with the central Indonesian government (in fact, it pioneered the concept). With some justification, then, local activists can claim that the original inhabitants have received minimal reparation, and that further development compounds the omission.

In response, Freeport points to *its various local initiatives*, including a foundation that contributes around $6m a year to community projects, and notes that its activities probably pump $1m a month into the local economy.

At best, the accommodation is an uneasy one.

As Indonesia pursues a world role, **Nikki Tait** talks to the foreign minister

Timor still a stumbling block

Indonesia's foreign policy, in the eyes of foreign diplomats, seems to be squeezed between the demands of domestic nationalists, for whom the country's unity is paramount, and the urgings of western liberals, who want no truck with a regime whose record on human rights has large lacunae.

But for all the apparent difficulties, Mr Ali Alatas, foreign minister since 1988, has manoeuvred with skill and some style.

Far from recoiling from the international stage, Indonesia has appeared increasingly active. It played an important role in the Cambodian peace process of the early-1990s, and hosted the recent Asia-Pacific Economic Co-operation forum, which pledged to move towards regional free trade.

It has chaired the Non-Aligned Movament, and taken a seat on the United Nations' security council. And it has mended some bilateral fences, including those with Australia, its most immediate western neighbour.

Mr Alatas explains that this higher profile is a reflection of Indonesia's internal development, and a measure of its recent economic growth. "Several things came together, especially after 1988. And I think one of things was that, by that time, the Indonesian economy and economic development had reached a sufficient degree of growth, of momentum, that we could now spend more time also on other issues," he says.

"We were able to attend in a more concentrated fashion to other issues, like the Middle East, South Africa. And so we gradually prepared ourselves for the chairmanship of the Non-Aligned Movement, for example."

Cynics might consider it convenient that Indonesia should be trying to impress its credentials on the world stage just when it needs western aid and investment to push its economy np the technology ladder. Mr Alatas deflects the implied criticism, bnt does not deny the main point.

"It'a not particularly trade-driven or economy-driven," he says, of the country's foreign policy. "But, of course, trade and how to gear our diplomacy and our foreign policy to support our developmental aims is one of the major tenets."

If economic conditions are one factor in the foreign policy mix, some diplomats see more personal considerations, too. Having secured his position in Indonesia's history, President Suharto would like to cement some international credentials, runs their thinking. Indonesia's recent intervention in the Bosnian crisis, which followed a presidential visit there, is cited as evidence.

If that is speculative, the big stumbling block to Indonesia's international aspirations – East Timor – is not. Indonesia annexed the former Portuguese colony in 1975, when it was still technically administered by the Portuguese under a UN mandate.

The UN has never recognised Indonesia's sovereignty, and local dissidence has continued to simmer, sometimes erupting into bloody conflict.

Mr Alatas has publicly described the Timorese situation as "a pebble in my shoe"; and he also admits to "irritation" and "frustration" nver the persistent way in which East Timor surfaces whenever Indonesia catches the international spotlight.

Observers think that this is an understatement. "It's more like a bloody great rock," says one foreign affairs specialist. "They see the problem, bnt they don't know what to do about it."

Part of the difficulty is that East Timor is not the only potential breakaway region. Aceh, in northern Sumatra, has been the subject of separatist action in the past, as has Irian at the other end of the Indonesian archipelago. The doctrine of national unity, however, is enshrined in Indonesia's five guiding principles.

While some observers have detected a more hopeful shift in Indonesia's stance over Timor, this was never likely to materialise in the context of this month's UN-brokered discussions in Austria, involving both exiled members of East Timor's independence movement and East Timorese who favour integration with Indonesia. Indonesia firmly dismissed these as no more than informal background dialogue.

In the words of Mr Alatas: "The government of Portugal, the Portuguese foreign minister, the foreign minister of Indonesia and the secretary-general of the UN are already engaged in a political talk for a solution. Here is a problem which is going to be resolved officially between governments. You cannot open a new flank and say the people must also talk witb one another. Who are these people? The people are represented by their governments in the talks."

There are other points of friction with western liberalism – a somewhat arbitrary attitude to press freedom, for example, or to labour rights. But, on this score, the careful Mr Alatas almost explodes with feeling. Indonesia, be says, will be a democracy, "but our form of democracy.

"It cannot be the same as the west, because we have a different historical experience. We have different ways, priorities, I don't know if religion plays a part, but all these are very fundamental differences in the make-up of a person and in the make-up of a society.

"Now, press freednm. OK, that is one of the principles. But how far press freedom? We say press freedom with responsibility, and we are still trying to find where responsibility begins, where press freedom ends. But we strongly believe it cannot be as free as in the west, because we are of a different nature."

He drops his voice again. "We are far from our democratic ideals. That I admit readily. We must more and more democratise. Bnt after 10 years, after 30 years, I guarantee you we will still not be the US or Australia... In 10 years' time, I am sure we will be more democratised. But we will still be different. That's the problem."

Ali Alatas: democracies can vary

Profile: **Bakrie Group**, a conglomerate owned and controlled by Indonesians

Reshaping on a wider base

Asian conglomerates are renowned for their diverse business interests and often impenetrable corporate structures. But those in Indonesia tend to be particularly sprawling and opaque.

Most are nwned and closely controlled by individual ethnic Chinese, who dominate the vast proportion of private business in Indonesia, despite making up only around 2 per cent of the population.

Over the past few years, they have experienced rapid growth on the back of government deregulation and a boom in the economy. They have built up interests in all areas of the private sector, from forestry to telecommunications, property to media, and banking to mining. Some of the biggest, such as Salim, Sinar Mas and Astra, own stakes in literally hundreds of disparate companies throughout the country and region. And as the government continues to shrink its own business interests and deregulate the economy further, they are expected to become ever more important engines of Indonesia's economic growth.

In order to make the most of the opportunities ahead, analysts argue that, along with a general improvement in reporting and accounting standards, much needs to be done to restructure and refine the conglomerates' corporate strategy and structure. At present, they complain that poor disclosure, combined with the sheer diversity and complexity of their structures, makes forecasting future profits and sales notoriously difficult.

"The conglomerates must overcome the exuberance of youth and decide what areas they are best at. Otherwise, in the long term, they'll find that trying to run a hundred different businesses at once won't work," says one long-time observer in Jakarta.

One group which is already undergoing an ambitious and complicated programme of restructuring is Bakrie Group, which also has the distinction of being one of the very few conglomerates in Indonesia to be owned and controlled by indigenous Indonesians.

Established by Mr Haji Achmad Bakrie in 1942 as a trading and brokerage company in Lampung province, Sumatra, it has grown into an employer of around 14,000 people, with interests in nearly all areas of Indonesia's economy. Owned and controlled by the founder's sons: Aburizal, Indra and Nirwan, it has been organised into three broad holding companies, which themselves have either been or are being restructured, with the aim of achieving a well-defined number of focused businesses and a broader base of equity ownership.

The Bakrie Group: corporate structure

Bakrie & Brothers			
TELECOMMUNICATIONS	INFRASTRUCTURE SUPPORT	PLANTATIONS	STRATEGIC INVESTMENTS
Bakrie Communications Corporation Bakrie Electronics Company Radio Telephone Indonesia Multi Kontrol Nusantara Link Telecoms Group	Bakrie Pipe Industries Bakrie Harper Corporation Seamless Pipe Indonesia Jaya Trans Bakrie Bakrie Corrugated Metal Industry Bakrie Tosanjaya Braja Mukti Cakra Bakrie Building Industries	Bakrie Sumatera Plantations Bakrie Pasaman Plantations Agrowiyana Lewis & Peat Rubber (UK) Lewis & Peat (Singapore) Lewis & Peat Rubber (USA)	Bakrie Kasei Corporation Indocopper Investama Corporation Arutmin Indonesia Bakrie Kasei PET Bakrie Power Corporation
Bakrie Nusantara Corporation			
BANKING	MULTIFINANCE	INSURANCE	SECURITIES
Bank Nusa International MayBank Nusa International	Bakrie Finance Corporation	Mediagati Asuransi Umar Lloyd Asuransi Yasuda Indonesia	Bakrie Securities Asia Development Securities Antley & Pearce Nusantara Indonesia
Bakrie Investindo			
MINING	PROPERTY	MEDIA	OTHERS
Fajar Bumi Sakti	Citra Swadaid Utama Bakrie Nirwana Resort Bakrie Rasuna Development Corporation Krakatau Lampung Tourism Development Corporation Restaurant Caturindo Corporation	Usaha Mediatronika Nusantara Cakrawala Andalas Televisi Indonesia Asia Vision Indonesia	Tipperary Indonesia

■ Bakrie & Brothers: Currently the group's only holding company listed on the Jakarta Stock Exchange, it is the biggest in terms of turnover and assets. In 1994, after two years of restructuring it made record pre-tax profits of Rp167bn (Rp45bn in 1993) on turnover of Rp746bn (Rp311bn in 1993). Traditionally, its main business has been in steel pipe manufacturing, where it has a near monopoly on pipes for oil and gas projects. But helped by a massive 18-to-5 rights issue, which raised Rp1,400bn last year, it cleared most of its debts and has developed or acquired a rubber and palm oil plantations division and a rapidly expanding telecommunications division, along with a number of other strategic investments.

Overseeing the restructuring is a team of professional managers, led by Mr Tanri Abeng, who took over in 1989 prior to the company's listing. "What we have done is to take a hard look at what businesses we were in and in which we thought we'd have the competitive edge in the long term," he explains. "We divested our textiles operations and cocoa plantations, and shifted high-risk interests, such as property, to other parts of the group. What is left are three strong core businesses on which we can focus."

The telecommunications division – which has attracted foreign strategic investors, such as the Netherlands' PTT Telekom and the American International Group – is the fastest growing area of the company, and is forecast to contribute 70 per cent of revenue by 1997. Mr Abeng says that, once the division is well enough established, it may be spun off and listed separately.

■ Bakrie Nusantara Corporation: Created in 1989, at the same time as Bakrle & Brothers, this is currently being restructured into a pure financial services division via a reverse takeover by one of its own listed companies, Bakrie Finance Corporation.

The restructuring will be funded by a planned 7-to-2 rights issue, which will raise Rp180bn later this year. With this, BFC will acquire from its parent company the conglomerate's own bank, Bank Nusa International, along with its various insurance and brokerage companies. As was the case in Bakrie & Brothers, non-core activities, such as Nusantara's general traders and electronics manufacturers, will either be transferred to another part of the group, sold or liquidated. Later, NusaBank may also be spun off to its own listing.

■ Bakrie Investindo: Established in 1991, this acts as a private investment vehicle for the Bakrie family to pursue the more entrepreneurial and high-risk ventures of the group. It is also the holding company for the family's investments. Its companies are mainly involved in residential and commercial property, coal mining and television and other media. The investment philosophy differs from the other two divisions, in that projects are developed to be sold at a profit, although the company normally maintains a diluted strategic stake. At the end of this year, it is expected to record sales of Rp1,700bn and a net income of Rp261bn.

The long-term effect of the group's restructuring will inevitably dilute the Bakrie family's ownership of the conglomerate. Mr Abeng says that, although it will retain a controlling stake in all three holding companies, the family is one of the few conglomerate owners who are genuinely committed to public ownership.

Underlying this willingness to widen the equity-base is a desire to improve shareholder value by gradually increasing liquidity in its shares. Until now, most shares in Bakrie & Brothers have been closely-held by either the family or strategic investors, but the management hopes that with time the restructuring, along with a policy of increased transparency, will encourage more secondary trading.

Analysts and other conglomerates in Jakarta are naturally watching the restructuring with interest. Although ratings of Bakrie & Brothers remain cautious – most analysts rate the company as a speculative buy – observers acknowledge that the efforts being made should produce long-term dividends.

James Whittington

Economic growth is creating a new middle class, says **Nikki Tait**

In search of big spenders

Indonesia's recent economic growth has created startling contrasts. On the one hand, about 15 per cent of the population lives in poverty. Shanty dwellings around Jakarta's harbour testify to the urban poor. In the mountains of Irian Jaya, isolated tribal clans survive on a subsistence diet of sweet potato.

On the other hand, growth has created a burgeoning "middle class", willing to lap up anything from Belgian chocolates to Benetton leisurewear. Air-conditioned malls in Jakarta are thronged with Sunday shoppers. Fast-food chains such as Kentucky Fried Chicken have more than 100 outlets across the country.

It is impossible to put a precise figure on the number of newly enfranchised consumers, though broadbrush estimates suggest that between 7 and 8 per cent of the 190m population may have attained "middle income" or "upper income status". Most multinational consumer product companies are more cautious.

One much-quoted source of statistics is SRI, the local research firm, which suggests that about 16 per cent of the adult population in the main urban centres may already be in the "A1/2" group – that is, able to spend over Rp600,000 (£170) month.

In Jakarta alone, this suggests a "middle class" of well over 1m. Add on Indonesia's next half-dozen large cities, and that number doubles. Even so, market researchers warn that these consumers do not necessarily accord with European concepts of a middle class. "Most of the people we work with learn very quickly that their target is in the A1 group," says Shah Azmi, managing director at Frank Small & Associates, the consultancy firm, refering to the top half of the "A" group.

Mr Ganda Kusuma, of Bank Bali, says "middle class" would probably imply private car ownership; enough income to eat out three to four times a week; and a shopping expedition to a supermarket once a week and to a bookshop once a quarter. An overseas vacation would still be a rarity. Like Mr Azmi, he thinks that only about 1m Indonesians fall into this group.

Yet however the middle class is defined, two trends are clear. The first is the sharp and growing divergence between urban and rural areas (which can include city hinterlands).

According to government statistics for the past two years, only one in four "rural" inhabitants had a monthly expenditure in excess of Rp100,000. In urban areas, 47 per cent spent between Rp100,000 and Rp300,000 a month, and 44 per cent spent over Rp300,000.

Moreover, contrary to the impressions of many business travellers who arrive and depart from through Jakarta, non-urban dwelling remains the norm. The biggest secondary cities – Surabaya, Bandung and Medan – house only between 2m and 3m people each. "This is going to be a rural society for many years," says Mr Ian Wedding, president of AMP Panin, a joint-venture company between AMP, Australia's largest life insurer, and the local Panin Life.

For the present, then, even the most established multinationals tend to see their sales concentrated in Java. For example, Coca-Cola – whose products were first sold in Indonesia in the early 1930s – reckons that about 80-85 per cent of its business is there, although 60 per cent of the population lives on Indonesia's most populous island. But researchers at the University of Indonesia say that, by 2020, around 52 per cent of Indonesians could be living in urban areas, compared with 29 per cent in 1990.

A second significant point is the speed of change. One market researcher reckons that the real growth in "A" and "B" (able to spend more than between Rp401,000 a month) consumers in Indonesia's four main cities may have been as high as 49 per cent between 1990 and 1994, with the number rising from 2.3m to 3.4m. This can be attributed largely to the country's recent economic growth, especially in non-oil sectors, though two other factors may be accelerating the trend.

First, retail structures are beginning to change, and supermarkets, such as Hero and Golden Truly, are appearing. According to one piece of research, the percentage of toilet-soap sales through supermarkets rose from 32.1 per cent in early-1993, to 43.6 per cent just two years later. At the top of the market, this trend has been enhanced by the growing interest of foreign retailers in Indonesia – Jakarta malls now include outlets such as Japan's Sogo and Britain's Marks & Spencer.

Second, as more people watch television, advertising and marketing mechanisms are becoming more sophisticated. John Brady, managing director of Coca-Cola Indonesia, thinks this, too, may be contributing to the growth of a new generation of consumers. "There's the potential for very rapid development in urban areas, because you can concentrate your efforts," he suggests.

Not all projects are successful, however. Yaohan, the Japanese retailer, opened its doors – via the required franchise arrangement – about two and half years ago, but pulled out last April. Poor choice of location and a muddled pricing strategy have been blamed. A number of fast-food franchises have also backed away.

Two of the most widely cited problems are poor infrastructure and Indonesia's complex business framework. Difficulties arising from the former include the absence of a trained labour pool. Mr Wedding, for example, points to the problem of running an efficient sales force when agents habitually get stuck in traffic; though "the biggest challenge is to find good quality managers".

"Payment infrastructure" also has a long way to go. The number of consumers with access to plastic money is limited, and cheques are rarely used, so most transactions are still in cash. Bankers estimate that fewer than 1m Indonesians use credit cards – and, even then, primarily as a convenient means of buying big-ticket items, with debts being cleared monthly.

High interest rates – about 40 per cent – are one reason for this. But Mr Kim Kok Hai, at Bank Internasional Indonesia, points out that only recently has it been possible for banks to target a market of corporate employees, whose traceable addresses and regular income makes them an acceptable credit risk. A traditional small businessman may have higher income, but "in 13,000 islands, people can just disappear".

Finally, the merits of unleashing foreign consumer goods on the Indonesian market have not gone unquestioned. President Suharto himself has criticised the spread of fast-food chains, and urged his countrymen to "eat Indonesian". The response of most suppliers, gulping at the prospect of a market of 190m people, is that there is no harm in choice.

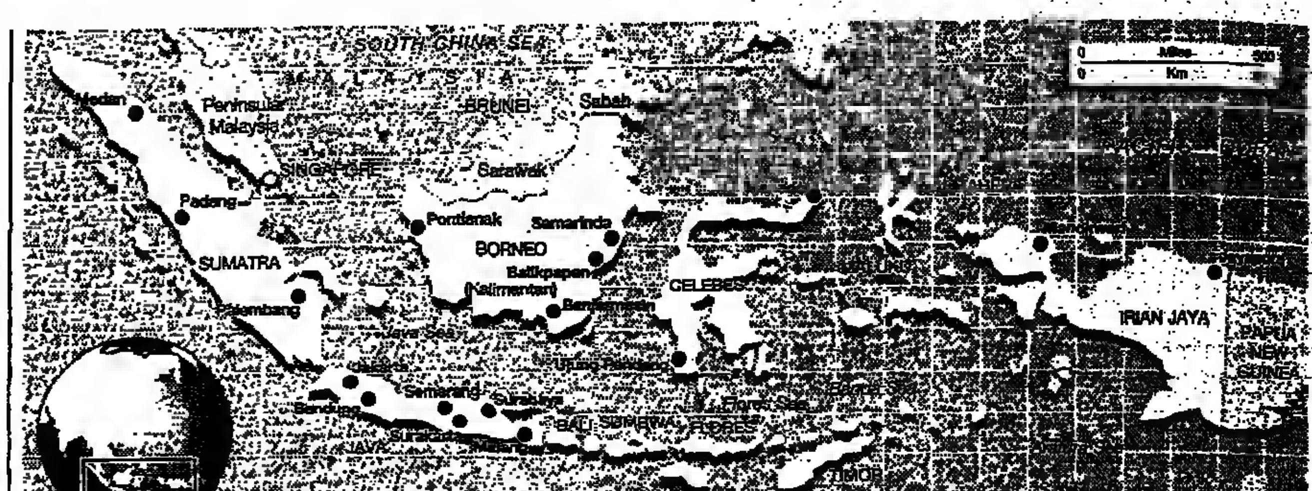
Tourism is the big earner

Last year, 33 per cent of the 4m visitors to Indonesia went to Bali, making it the most popular destination and accounting for a large proportion of the $4.8bn in foreign exchange earnings which tourism contributed to the economy, writes Manuela Saragosa.

With plans to make tourism the largest foreign exchange earner by the end of 2005, contributing about $14.1bn, the government is keen to see it develop in other parts of the archipelago.

It is therefore seeking to extend the range of international entry points to Indonesia, and has recently added Ujung Pandang, the capital of Sulawesi; Solo, in Java; Manado and Biak to its list. SilkAir, a unit of Singapore Airlines, has started flying to Manado, Malaysian Air to Ujung Pandang, and Garuda, Indonesia's international carrier, has started flights to Biak.

The government has also intensified promotion of Indonesia overseas, allocating 2 per cent of taxes received from hotels and restaurants to promotion. Officials say this means an additional \$20m-£25m a year for the promotion budget.



■ Population and Area

Population (millions)

1990	1991	1992	1993[1]	1994[2]
179.3	182.8	186.3	189.7	193.1

[1]Official estimates
[2]Economist Intelligence Unit estimates, first quarter 1995

Area (sq km):

Indonesia	1,904,443
East Timor	14,874

■ Capital and main cities

Population in millions, 1990 census

Jakarta	8.2
Surabaya	2.5
Bandung	2.0
Medan	1.7
Semarang	1.3
Palembang	1.1

■ Languages

Indonesian (Bahasa Indonesia), as well as some 250 other regional languages and dialects. English has increasingly replaced Dutch as the main second language, and is widely spoken in government and business circles.

■ Religion/Ethnic mix

Moslem (87%), Protestant (6%), Roman Catholic (3%), Hindu (2%), Buddhist (1%), other (1%)
The ethnic mix is predominantly Malay, but also includes Melanesian, Proto-Austranesian, Polynesian and Micronesian with many subdivisions. There are approximately 4m ethnic Chinese

■ Currency/exchange rate

Currency: Rupiah, divided into 100 sen. Import and export of local currency restricted to Rp50,000. Import and export of foreign currency unrestricted.
Exchange rate at June 5, 1995:
£1=Rp3,541.57; \$1=Rp2226.00; DM1=Rp1,583.21; Y100=2,645.91

■ Entry/visa requirements

Visitors must be in possession of passports valid for at least six months, with proof of onward passage, either return or through tickets.
Visas are usually required for all except EC countries, US, Canada, Argentina, Australia, Brazil, Chile, Morocco, New Zealand, Scandinavia, Venezuela and Asean passport holders.

■ Business hours

Office hours vary but are generally 0830-1600, except on Friday when it is difficult to make an appointment after 1100. *Local businessmen sometimes meet* people in the late afternoon and early evening. Saturday hours are normally to 1230.
Banks: 0800-1400 Monday to Friday; 0800-1100 Saturday. Hotel banks may remain open longer.

■ Public holidays

New Year, January 1; Indonesian National Day, August 17; Christmas, December 25. *Other moveable holidays:* Nyepi (Balinese New Year), Good Friday, Miraj, Ascension Day, Waisak, Eid-al-Fitr (end of Ramadan), Eid Al-Adha, Islamic New Year, Maulud. 1995: August 9, Birth of the Prophet Mohammad; August 17, National Day; December 20, Ascension of the Prophet Mohammad; December 25, Christmas Day.

■ Climate

Predominantly tropical monsoon. Variations relate mainly to differences in latitude and physical structure, but hilly areas are cooler overall. Rain falls throughout the year, often in thunderstorms, but there is a relatively dry season from June to September. December to March is the wettest period. Rainfall averages between 150cm and 400cm a year.
Weather in Jakarta (altitude 8 metres): Hottest months, April, May, 24-31°C (average daily minimum and maximum); coldest months, January, February, 23-29° °C; driest month, August, 43mm average rainfall; wettest months, January, February, 300mm average rainfall.

■ Time (zone)

Western zone (Java, Sumatra, Bali) 7 hours ahead of GMT, Central zone (Kalimantan, Sulawesi, Timor) 8 hours ahead, Eastern zone (Molucca, Irian, Jaya) 9 hours ahead.

■ Main ministries

Office of the Co-ordinating Minister for Economics, Finance and Industry and Development Supervision: Jalan Lapangan Banteng Timur 4, Jakarta. *Tel (21) 376343.* **Ministry of Agriculture:** Jalan Sisingamangaraja 2, Kebayoran Baru, Jakarta Selatan. *Tel (21) 722240 or 7393939.*
Ministry of Communications: Jalan Merdeka Barat 8, Jakarta-10110. *Tel (21) 3846712.*
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SOURCES: EIU country profile 1994-95; Dorling Kindersley World Reference Atlas (1994); Walden Country Reports (January 1995); World Hotel Directory (1995); World of Information (August 1993); World Hotel Directory (1995); Europa World Yearbook.

FINANCIAL TIMES

COMPANIES & MARKETS

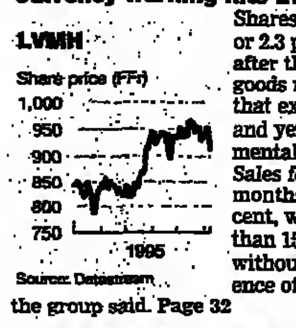
Friday June 9 1995

IN BRIEF

Record profits at KLM spark payout

KLM Royal Dutch Airlines, the Dutch carrier, will pay its first dividend since 1992 following record profits of Fl 470m ($295m) for 1994-95, from Fl 103m a year earlier. The carrier was helped by a drop in losses in the fourth quarter. Page 16

Currency warning hits LVMH



Shares in LVMH fell FFr21, or 2.3 per cent, to FFr907 after the French luxury goods manufacturer warned that exposure to the dollar and yen was having a detrimental effect on its profits. Sales for the first four months of 1995, up 8.5 per cent, would have been more than 15 per cent better without the negative influence of currency turbulence, the group said. Page 32

Orkla doubles to NKr596m

Orkla, poised to become the Nordic region's biggest food and drinks producer, doubled pre-tax profits to NKr596m ($95m) in the first four months of the year, from NKr299m in the same period last year. Page 16

French steelmaker takes to the road

Usinor Sacilor will spend the next few weeks on the road, wooing French and international investors to its privatisation. Page 17

Chemical group in pollutant breakthrough

Rhône-Poulenc, the French chemicals and pharmaceuticals group, claims it has developed a technology that can reduce carbon emissions from diesel fuel by 80-90 per cent. Page 17

Finnish sports goods maker slips

High marketing costs and adverse currency trends hit profits in the first four months at Amer, the Finnish group which has evolved into the world's second largest sporting goods maker based on the Wilson, MacGregor and Atomic brands. Page 18

3i shareholders to sell further 21%

The four large bank shareholders in 3i, the UK venture capital investment trust, confirmed their intention to sell a further 21 per cent of the share capital, raising the total percentage of the traded shares to 69 per cent. Pre-tax net asset value at 3i rose 10.5 per cent to 346p for the year to March 31 1995, from 313p. Page 20

TeleWest confirms cable merger

Consolidation of the UK cable industry is likely to gather pace following TeleWest's confirmation of its £679m ($1.1bn) merger with SBC Cablecomms, the fifth biggest operator. Page 20

Italian shipbuilder raises L2,000bn

Fincantieri, Italy's state-controlled shipbuilder, yesterday signed a syndicated loan for just over L2,000bn ($1.2bn), to finance the construction of four cruise liners. Page 22

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Berlin Kraft	331	+	11
Hochtief	825	+	12
Zanders Fein	200	+	5
Falls			
BMW	764	–	14
GEHE	633	–	12
Thyssen	262	–	8.4
NEW YORK ($)			
Rises			
Adobe System	56½	+	2¾
Aetna Life	61½	+	1¼
Boeing	62¼	+	1
Iomega	24¾	+	2⅝
Lotus Dev	63¾	+	⅝
Falls			
Philip Morris	72	–	1⅛
LONDON (Pence)			
Rises			
Brwn & Jcksn	157	+	16
Oxford Inst	391	+	22
VSEL	2140	+	302
Zeneca	1068	+	74½
Falls			
Brodwick Grp	63	–	17
Eurocamp	229	–	49
TORONTO (C$)			
Rises			
Cinar Films A	13¾	+	1¼
Gandalf Tech	11¾	+	1⅛
Repap Wests	16	+	1½
Falls			
Diamond Flds	65⅝	–	10⅝
Leitch Tech	20⅝	–	¾
Tarragon O&G	14⅛	–	⅝
PARIS (FFr)			
Rises			
Immobanque	654	+	52
Falls			
Air Liquide	770	–	8
BNP	250	–	3.7
Banc Comp	589	–	11
LVMH	907	–	21
Radiotechn	500	–	15
TOKYO (Yen)			
Rises			
Fudo Cons	725	+	29
Falls			
Amada Co	800	–	27
Casio Comp	716	–	33
Fujisawa	932	–	48
Nissan Mtr	511	–	32
Toshoku	448	–	22
HONG KONG (HK$)			
Rises			
CompanionW96	1.08	+	0.16
Hang LungW97	1.42	+	0.11
Wrld Hsewre	1.83	+	0.12
Falls			
IMC Hlds	5.3	–	0.3
Lon Pac Ins	23.0	–	2.5
Pioneer W95	1.42	–	0.24
BANGKOK (Baht)			
Rises			
Pakpanang	37.0	+	3.25
Thai Theparos	78.0	+	4.0
Tonghua	47.25	+	4.25
Falls			
Bijoux Damor.	82.5	–	6.5
Kiang Huat	108.0	–	7.0
Thai German	83.0	–	5.0

New York and Toronto prices at 12.30pm.

Zeneca soars amid bid talk

Steep share price rise prompts denial from bioscience group

By Jenny Luesby in London

Zeneca, the UK bioscience group, was yesterday forced to answer speculation that it was about to build defences against a takeover following a rapid 12 per cent rise in its share price.

The company said it knew of no reason for the leap in the share price. This appeared to rule out the market conjecture that, fearing a bid, the company was about to make a big acquisition, merge with a rival or make a substantial disposal.

Zeneca shares opened at 994p, rose to a peak of 1,133p and then fell back 1,068p after the company's statement to the London Stock Exchange. The shares have been a feature of trading for several weeks with volatile movements in thin trading.

At the close of trading speculation remained that Roche, the Swiss pharmaceuticals company which showed an interest in acquiring Wellcome, is set to bid for Zeneca. The deal would be the world's largest takeover bid, at an estimated £14bn ($22bn).

Mr John Mayo, Zeneca's finance director, derided all speculation, saying the company was in "an excellent position". He felt no need to alter the group's strategy as a defence against takeover.

However, the drug industry has been consolidating at a dramatic pace in recent months, driven by the pressure on drugs prices due to managed healthcare in the US, and tighter healthcare budgets everywhere.

An acquisition of the scale necessary to draw Zeneca into the game would have been ruled out until recently, but the Glaxo Wellcome deal did more than push back the boundaries, it also whetted appetites.

Zeneca's pharmaceuticals division would be a prize. Its research and development pipeline is good, it is strong in cancer and cardiovascular drugs, and it has promising portfolios in central nervous system and respiratory drugs.

It is also a medium sized player in an industry where bigger companies are becoming aggressive.

But the scale of the deal might prove to be Zeneca's greatest protection.

Pfizer of the US has been suggested, as has Bayer, but Roche is the front-runner.

Roche's drugs portfolio would fit well with Zeneca's, and the cost-cutting that followed its acquisition of Syntex, revealed a ruthless and efficiency-driven acquisitions policy.

However, it would have little use for the 58 per cent of Zeneca's business that lies in agrochemicals and specialty chemicals, and would be unlikely to proceed with a bid without first having found a buyer for these businesses.

Lex, Page 14

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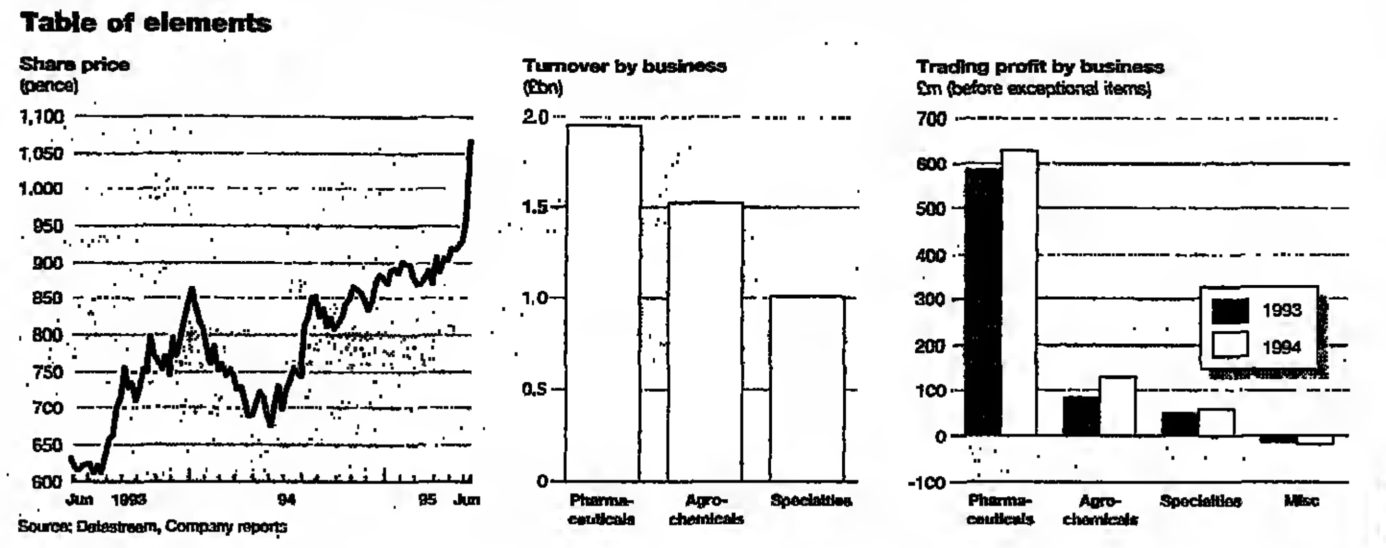


Source: Datastream, Company reports

Upbeat Deutsche Telekom cuts loss ahead of sell-off

By Michael Lindemann in Bonn

Deutsche Telekom, the German state-owned telecommunications network, cut losses from DM1.6bn to DM300m ($208m) in 1994, enhancing the prospects for its partial privatisation next year.

While presenting a confident forecast for the current year, the company stressed its determination to become a global force in the telecommunications market. It said its alliance with France Télécom, the French carrier, and its link-up with Sprint, the third-biggest US long distance carrier, would be approved soon by the European and US competition authorities.

"We are dusting off the last details with our French and US partners and then we'll be ready to go," said Mr Ron Sommer, the new chief executive who took over last month.

The group reported gross profits for 1994 of DM7.1bn but after taxes and transfers to the government that figure fell to a net profit of DM1.3bn. Mr Joachim Kröske, finance director, said that the net profit was converted into a loss of DM300m after accumulated losses for 1993 worth DM1.6bn had been accounted for.

The result reflects changes in Deutsche Telekom's accounting practices over the past five years as it prepares for the private sector.

Mr Kröske would not give any figures but said earnings for 1995 would improve when compulsory transfers to the government fall to DM3.1bn and when the depreciation on telecommunications equipment was reduced.

The company hopes to raise about DM15bn through Germany's largest-ever equity issue next year, but Mr Kröske said it was still unclear when the company would list its shares on stock exchanges in New York, London and Frankfurt. The listing would depend on "the state of the capital markets", he said.

Next year's issue is the first of two which will together raise about DM30bn before 2000. Mr Kröske said that by September be hoped to complete talks with the Securities and Exchange Commission which supervises the New York Stock Exchange, clearing the way for Deutsche Telekom to become the second German company to list in the US after Daimler-Benz in 1993.

The company would be prepared to give way to SEC demands in the way it calculated some of its figures but generally it was determined to present a single set of accounts.

Group sales this year are forecast to rise 6 per cent to DM68bn.

By 2000, Deutsche Telekom hopes to have sales of about DM80bn and will by then have cut its workforce by 60,000 to about 170,000.

Devalued peso forces Mexican airline to reschedule eurobond

By Antonia Sharpe in London and Leslie Crawford in Mexico City

Aerovias de Mexico (Aeromexico), the Mexican airline close to bankruptcy, is the first Mexican company forced to seek a rescheduling of a eurobond since the peso devaluation crisis last December.

Aeromexico, which was privatised three years ago, has asked holders of its $100m eurobond offering and $37.5m-worth of euro-commercial paper to accept new five-year notes as part of a restructuring of its obligations.

Tha eurobonds, whicb were issued in 1992, are due to mature on Saturday but the airline does not bave the cash to pay back the principal amount. The bonds are held mainly by private investors and they have until July 10 to respond to the offer.

If bondholders decline to accept tbe airline's new offer, Aeromexico said it would seek protection from creditors in Mexican courts and elsewhere to win time to implement a restructuring plan for the company.

The consortium of bank creditors which took control of Aeromexico when the airline hit financial difficulties in October said their plans to recapitalise the airline hinged on the restructuring of Aeromexico's external debt.

If the new bond offer was accepted, the consortium said it would write off the airline's bank debts and inject new capital in preparation for the sell-off of the airline.

Aeromexico is offering new five-year notes with an interest rate of 9.75 per cent payable semi-annually.

The notes begin amortising in four equal instalments from June 1998 with a payment equal to 50 per cent of their principal amount when they mature in 2000. The average life of tbe notes is therefore about 3¾ to four years.

In the first quarter of this year, Aeromexico registered a net loss of 677m pesos ($111m) against losses of 368m pesos in the first quarter of 1994. The losses at Mexicana de Aviacion, the airline acquired by Aeromexico in 1992, increased more than three-fold to 1bn pesos.

Aeromexico's negativa net worth is estimated at 1.8bn pesos, while Mexicana's stands at 784m pesos.

Bidders line up to purchase Labatt's broadcasting assets

By Robert Gibbens in Montreal

John Labatt, the Toronto-based beer and entertainment group under an agreed C$2.7bn (US$2bn) takeover from Interbrew, the Belgium brewer, is talking to at least two potential bidders for its broadcasting interests.

CanWest, the Winnipeg-based commercial broadcaster which put together the highest bidding consortium for the UK Channel 5 TV licence, confirmed it is in talks for the assets, estimated to be worth C$600m. Other possible bidders include Vancouver-based Alliance Communications and WIC Western, based in Toronto.

Labatt's cable broadcast interests include the Sports Network (TSN) and its French language counterpart, 80 per cent of the Discovery Channel, and 25 per cent of Viewer's Choice, a pay-per-view service.

It owns Dome Productions and Skyvision, TV programme producers; Supercorp Entertainment, a TV commercial producer; BCL Entertainment, a concert promoter which bas been involved in tours by Pink Floyd and the Rolling Stones; Rep Shoppe and Media's Ventes, advertising sales agencies; and 35 per cent of NTN Canada, which markets interactive TV programming.

There has been speculation about the company's sporting interests: a 90 per cent stake in the Toronto Blue Jays, the World Series champion baseball team; all of the Toronto Argonauts football team; and a 41.6 per cent stake in Toronto's covered Sky-Dome stadium. However, analysts said the sale of sports and other non-brewing assets may be delayed by market factors.

Interbrew's C$28.50 a share offer earlier this week came after a hostile C$24 a share bid from Onex, the Canadian leveraged buy-out firm, and Quilmes, a Latin American brewing group. Labatt shares traded at C$27.75 yesterday up C$¼.

Interbrew is interested in Labatt's North American brewing business, Birra Moretti in Italy and its 500 pubs in Britain. Its offer is structured to allow Labatt's non-brewing assets to be sold quickly, with priority for the broadcasting interests, and if a better bid materialises, Labatt has agreed to give the Belgian company an option to buy Moretti for C$165m.

Fortune-hunters flock to Diamond Fields' large deposit

Canadian elephant hunt bags many nickels and dimes

Every small mining exploration company hopes to bag an "elephant" – the industry jargon for an ore body so big and rich it can quickly transform the finder into a world-class company. Diamond Fields Resources has bagged its elephant.

Last November, shares in this small Vancouver-based company could be bought for C$4 each. This week they peaked at C$80 at whicb level Diamond Fields, which has yet to produce a pound of metal or an ounce of gold, had a market value of nearly C$2bn (US$1.45bn) as big as many of Canada's senior mining groups.

Yesterday, tha company announced a US$500m deal with Inco, the world'a second-largest nickel producer, that will leave Diamond Fields with about C$650m in cash and securities and with a big brother willing to provide technical advice and to spend another C$25m on the project that has catapulted Diamond Fields into mining history. Inco is paying for a 25 per cent share of Diamond Fields' Voisey Bay deposit, near Nain on Labrador's north-east coast.

The two geologists who discovered Voisey Bay, Mr Albert Chislet and Mr Chris Verbiski, were looking for diamonds when they stumbled instead on a nickel deposit covering 1.6 sq km. It was the richest base metals discovery in Canada for 30 years and their little company will earn a royalty on all the metal produced.

Before yesterday's deal Mr John Lydall, analyst at First Marathon Securities in Toronto, estimated the deposit had the potential to produce between 60m and 100m lbs of nickel a year, equal to 4-6 per cent of 1994 western world demand for the metal, which is used mainly in the production of stainless steel.

Prof Roger Morton, of the economic geology department at the University of Alberta and a Diamond Fields shareholder, compares the Nain area with Sudbury, Ontario, which has 38 deposits containing between them 1bn tonnes of ore. He says the Nain area is also likely to become a nickel "province" supporting many mines.

Others had the same idea. News of the Voisey Bay discovery resulted in a staking rush that saw more than 3,000 sq km of mining claims staked in a few days by about 6,000 individuals and companies.

The man who stands to benefit

most from Voisey Bay is stock promoter Mr Robert Friedland, who financed Diamond Fields from the start and is its biggest shareholder. He is haunted by his past association with Galactic Resources, which developed the ill-fated Summitville gold mine in Colorado. The US Environmental Protection Agency had to step in when Galatic declared itself bankrupt in December 1993, and has spent more than US$100m cleaning up the mine to prevent toxic waste spills.

Mr Friedland was called up as joint chairman of Diamond Fields as the big mining companies qneued for a slice of the Voisey Bay action.

Teck Corporation, the Vancouver metals and mining group, was first in, paying C$36 a share in April – or C$108m – for a 10 per cent stake in Diamond Fields.

It was widely assumed that Inco, Canada's large nickel group, could not afford not to be involved in Voisey Bay, partly to preserve its share of the world nickel market and partly to benefit from what analysts suggest will be very low-cost metal.

Prof Morton suggests Voisey Bay's production costs would be about 50 cents a lb but in reality the cost would be zero because revenue from copper and cobalt by-products would cover the costs.

Yesterday, Inco said it would buy 30 per cent direct and indirect interest in Voisey Bay. It is paying US$387m for 25 per cent in convertible preferred shares and buying 2m shares in Diamond Fields from three shareholders for US$68m cash and Inco shares worth US$35m.

Inco said this values Diamond Fields shares at C$71.50 each, below recent market levels.

Mr Michael Sopko, Inco's chairman, said Voisey Bay would provide the western world's lowest-cost nickel and he hoped a mine would be in production by 2000. The target is a minimum annual output of 130m lbs of nickel, 90m lbs of copper and 3m to 5m lbs of cobalt.

Kenneth Gooding and Robert Gibbens

KLM at record Fl 470m and resumes dividend

By Ronald van de Krol in Amsterdam

A sharp decline in losses in its traditionally weak fourth quarter helped KLM Royal Dutch Airlines to a record net profit of Fl 470m ($295m) for the 1994-95 financial year, from Fl 103m a year earlier.

The improvement prompted the carrier to pay a dividend of Fl 1.50 a share, its first pay-out since 1991-92.

KLM attributed the better results to economic recovery, an 8 per cent rise in passenger numbers and its alliance with Northwest Airlines of the US. Other factors included continued cost-cutting and a strong performance in the final quarter covering January 1 to March 31, when net losses narrowed to Fl 89m from Fl 156m.

Operating profit increased to Fl 772m from Fl 467m, while financial expenses fell to Fl 283m from Fl 381m.

Mr Pieter Bouw, president, said he was very satisfied with the results but also "saddened" because yesterday's news coincided with a six-hour strike by KLM pilots at Amsterdam's Schiphol airport. The stoppage, between 10am and 4pm, follows a similar six-hour strike last week.

KLM and its pilots are embroiled in an increasingly bitter dispute about pay and pension entitlements as part of a wider KLM campaign to increase the flexibility of its workforce.

Since it began its cost-cutting programme in 1991, KLM has raised productivity by 57 per cent and lowered unit costs by 20 per cent.

Mr Bouw said KLM's profitability and financial strength meant that it would not be rushed into finding a European partner, in spite of recent alliances between Lufthansa and SAS and between Sabena and Swissair. But he acknowledged that "so far our growth in Europe is rather limited".

"Looking at the longer term, KLM requires a partner with whom we can jointly enlarge European market share to our target of 15 per cent," he said.

The KLM group, including charter and regional subsidiaries, has about 7.5 per cent of the European market.

For 1995-96, KLM is predicting a slight improvement in net profit. This is in spite of the fact that it will have to pay pension premiums again, after the scheduled end to its premium-holiday in December 1994. It will also be liable to full tax charges, as it has exhausted carry-forward losses.

But KLM will start including income from its Northwest Airlines preference shares, worth a nominal $400m and earning an annual return of 8 per cent. Mr Rob Abrahamsen, finance director, said KLM did not currently plan to resume including income from its 25 per cent stake in Northwest's ordinary share capital. The value of this stake was gradually written down to zero earlier in the 1990s because of Northwest's losses, which have now come to an end.

German utilities in Czech joint venture

By Kevin Done, East Europe Correspondent

Two German electricity utilities are making their first entry into the Czech Republic in a joint venture to produce heat and power for Skoda Automobilova, the Czech carmaker and subsidiary of Volkswagen of Germany.

RWE Energie, the leading German power utility, and OBAG, a subsidiary of the Bayernwerk group, the regional utility in Bavaria, are taking minority stakes in the venture along with STE Stredoceska Energeticka, the Czech power utility in the Prague region.

They are forming two joint venture companies, Skoda-Energo-Fin and SkoEnergo, to provide and operate all utility services for the Czech carmaker, including electricity, heat, natural gas, water and compressed air.

They will also take over provision of district heating for the town of Mlada Boleslav, 65km north of Prague, which is the site of the main Skoda car plants, and the operation of waste water treatment and recycling.

RWE and OBAG are each taking stakes of 42.5 per cent in SkoEnergo-Fin, the financing and leasing company for the joint venture, with STE taking a 5 per cent holding and Skoda 10 per cent.

SkoEnergo, the operating company, will also manage construction of the new heat and power station. It will be 34 per cent owned by Skoda, with the two German utilities each holding 21 per cent. Skoda-Energo will build a new coal-fired 320MW heat and 80MW power plant at Mlada Boleslav with an investment of between DM120m and DM150m ($83m-$104m).

In addition to marking a significant move by west European power utilities into eastern Europe, the project is also a big step by Skoda to dispose of activities that do not form part of its core vehicle manufacturing operations. About 300 Skoda workers will transfer from the carmaker to SkoEnergo.

Axel Springer predicts 25% growth in earnings this year

By Judy Dempsey in Berlin

Axel Springer, Germany's largest newspaper group which publishes *Bild*, the mass circulation daily, and *Die Welt*, expects a 25 per cent rise in consolidated profits this year from DM122.6m ($87.1m) last time, Mr Jürgen Richter, the group's chairman, said yesterday.

This would follow a 72 per cent increase in net profits for 1994. The dividend will be increased from DM12 to DM15, including a bonus of DM1.50.

At the same time, the group plans to focus more on its newspapers and magazines, its traditional markets, and give less emphasis to the electronic media.

Springer holds a 20 per cent stake in Sat-1, the independent German commercial television channel, and 24.9 per cent in DSF, the loss-making sports channel.

For the first five months of this year, sales rose by 4 per cent and advertising revenue increased by 8 per cent compared with the same period last year. The price of newsprint has risen by 20 per cent over the year.

Consolidated profits last year rose by DM51m to DM122.6m while profits for the Axel Springer publishing group increased by DM38.6m to DM98.2m. Consolidated group turnover, including sales and advertising revenue, rose by 2.1 per cent to DM4bn last year from DM3.8bn in 1993.

Sales for the newspapers, which account for 61.5 per cent of Springer's publishing activities, rose by 0.5 per cent to DM1bn, while newspaper advertising income, which accounts for 79 per cent of total advertising revenue, rose by nearly 1 per cent to DM1.4bn.

Magazine sales remained stable at DM653m and advertising revenue for this division dropped by 0.8 per cent to DM369.3m.

However, Mr Richter, who was appointed chairman a year ago after one of the most radical management shake-ups in the industry's history, said the conservative-leaning *Die Welt* daily was still making losses of about DM35m a year.

However, he said Springer group would continue restructuring the newspaper and would strengthen the market share of its other titles.

The 1994 rise in profits coincided with a restructuring of the management board, which was reduced from seven to six members, and the scrapping of intermediate levels of decision-making. The majority of the shares are still held by the Springer heirs. Mr Leo Kirch, the Munich-based media magnate, holds a 35 per cent stake, plus one share.

Orkla doubles profits in first term

By Hugh Carnegy in Stockholm

Orkla, which is set to become the Nordic region's biggest food and drinks producer, yesterday said pre-tax profits in the first four months of the year had doubled to NKr598m ($96m) from NKr299m in the same period last year.

The Norwegian group agreed in April to buy the food operations held by Volvo, the Swedish motor manufacturer, for SKr4.25bn ($589m) and to enter a joint venture with Volvo to combine their beverages businesses, making Orkla the dominant force in food, beer and soft drinks in Sweden and Norway.

Results in the first four months – which did not include any of the businesses to be acquired under the Volvo deal – were flattered by capital gains of NKr295m, an increase from NKr169m in the same period last year, as Orkla disposed of non-core interests.

The divestments restricted growth in group sales, which rose to NKr6.44bn from NKr6.42bn, although Orkla said the underlying growth was 8 per cent. A fall in operating expenses to NKr5.63bn from NKr5.78bn allowed operating profits to rise to NKr440m from NKr280m.

Orkla's deal with Volvo is still subject to approval by competition authorities in the European Union, Norway and Sweden. The EU may require changes in the terms of the drinks joint venture, which would have more than 80 per cent of the Norwegian market.

In the meantime, Orkla's beverages division remained in losses in the first four months, improving to an operating deficit of NKr7m from a deficit of NKr32m last time but prevented from a return to the black by a NKr25m loss in Poland. Orkla said its Ringnes division was in discussions with its partner Coca-Cola about restructuring in Poland, but it warned it might pull out.

Operating profits in Orkla foods slipped to NKr78m from NKr89m on sales of NKr1.78bn – up from NKr1.66bn. Orkla brands, covering products from soya meal to snacks, pushed up operating profits to NKr147m from NKr111m, while sales rose to NKr1.8bn from NKr1.6bn. Profits at Orkla chemicals were up at NKr103m from NKr67m on sales of NKr1.16bn.

DnB confident of Vital acquisition

By Christopher Brown-Humes in Stockholm

Den norske Bank, Norway's biggest bank, expressed confidence yesterday that it was on course to acquire Vital, the country's second largest insurer, in a move which would thwart the ambitions of Dutch insurer Aegon to enter the Norwegian market.

DnB's NKr110 a share offer for Vital expired yesterday and the results are expected today or on Monday.

DnB said yesterday it believed it could reach the 90 per cent shareholder acceptance threshold that would allow it to proceed to take full control of Vital.

Vital has made it clear it would prefer to be taken over by Aegon. The Dutch insurer offered NKr103 a share for Vital, but then withdrew its offer 10 days ago to await the outcome of DnB's bid.

The Norwegian government, which owns 72 per cent of DnB, will have to give the bank special clearance to buy Vital. Norwegian law would normally prevent a large bank buying a large insurer.

Vital has expressed concerns about DnB's plans for the group, its inability to provide it with insurance expertise and the greater state ownership of the financial sector which a takeover would involve.

However, Mr Erik Kovacs, senior financial analyst with FIBA Nordic Securities, said: "DnB's price is fair and it looks as if things are going its way."

AT&T names distributor for former Yugoslavia

By Gavin Gray in Ljubljana

AT&T, the US telecommunications and computer company, said yesterday it had appointed Slovenijales, a Slovenian trading company, to distribute telecommunications equipment and multimedia products in former Yugoslavia, excluding Macedonia.

AT&T initially expects to sell basic telephone equipment to small private businesses in Slovenia and more sophisticated products, such as video conference facilities, voice messaging systems and modems, to banks, hotels, hospitals and government departments.

Slovenijales is already the Slovenian distributor for Hyundai, Ford and Reebok and has set up a subsidiary, Slovenijales-Tel, to sell AT&T products. It will open six dealerships in Slovenia by the end of 1996 and that network will later be extended to other former Yugoslav republics.

AGF 'prepared to float by September'

By Andrew Jack in Paris

Assurances Générales de France, the state-controlled insurer, will be ready for privatisation by September, its chairman said yesterday.

Mr Antoine Jeancourt-Galignani, in an interview before the group's annual meeting today, said it had yet to resolve two financial matters and articulate a new strategy in preparation for its sale.

He said the group still needed to confirm the approval by parliament of the state-backed rescue package for Comptoir des Entrepreneurs, the troubled property bank in which it holds a significant stake. It also needed to resolve a series of accounting issues.

The final step before privatisation will involve the preparation of its business strategy for the coming years, which should also be finalised and approved by the board this autumn.

Any decision on the timing and form of the sale of AGF ultimately rests with the new French government – and particularly with Mr Alain Madelin, economy and finance minister – and its privatisation commission.

AGF's sale has been held back partly by the financial uncertainties at Comptoir, which the new rescue package is designed to resolve. The disappointing trend of the French stock market in recent months, and the poor preformance of financial stocks in particular, has also been a factor.

Under a restructuring agreed with the government in the past few weeks, AGF increases its shareholding in Comptoir to 75 per cent from 30 per cent by injecting FFr400m ($81m). Comptoir is in turn permitted to remove FFr16bn in bad property loans from its balance sheet.

However, the plan, which was approved by Comptoir's shareholders at its annual meeting yesterday, still requires parliamentary scrutiny.

Mr Jeancourt-Galignani said AGF did not need to retain its 75 per cent stake in Comptoir, and that it would be searching for a strategic partner to allow it to reduce its holding to about 51 per cent over the next few years.

He expected AGF to work more closely with Comptoir in the coming years, and said the two groups were considering the sale of life assurance products linked to the issue of mortgage policies backed by Comptoir.

Separately, he said AGF still had two accounting issues to resolve. The first related to the pension costs of its employees, under a scheme being drawn up across the insurance industry. The second involved new accounting rules for the insurance industry, which define the way insurers can show in their accounts the future costs of life assurance policies they sell.

INTERNATIONAL COMPANIES AND FINANCE

Aker opens year with sharp rise to NKr192m

By Christopher Brown-Humes in Stockholm

Pre-tax profits at Aker, the Norwegian oil, cement and technology group, rose sharply to NKr192m ($30.4m) in the first four months of 1995 from NKr41m a year earlier.

Much of the improvement was on the back of a NKr131m gain from the sale of shares in Saga Petroleum. The group's cement and building materials division also returned its first positive result for at least three years.

Group operating profits rose 77 per cent to NKr154m from NKr87m, in spite of a decline in sales to NKr4.58bn from NKr5.27bn.

Cement and building materials recorded a NKr8m profit, after a NKr58m deficit, in spite of the normal seasonal slump in the group's Norwegian divisions. The performance was helped by lower Norwegian losses and a strong result from Scancem, the international unit jointly owned with Sweden's Euroc.

A lower level of activity in the Norwegian sector of the North Sea hit the Aker's oil and gas technology division, where profits slumped to NKr94m from NKr128m.

Aker said the split pattern would persist through 1994, with oil and gas technology reporting "slightly lower" profits than last year and cement and building improving their performance.

The company is planning an extensive shake-up of its structure, partly to distance its operations from a NKr2.3bn lawsuit it is facing over the sinking of an offshore gas platform it built in 1991.

Usinor Sacilor polishes image ahead of sell-off

French steel group hopes to allay concerns about cyclical and structural weaknesses, writes John Ridding

Mr Francis Mer has spent the past nine years forging Usinor Sacilor into shape with a view to returning the French steel concern to the private sector. He will spend the next few weeks on the road, wooing French and international investors in an attempt to complete his mission.

For the Usinor chairman, privatisation will bring access to international capital markets and the funds needed to develop Europe's biggest steel producer.

For his company's present owners, the stakes are similarly high. The privatisation is the first to be launched under the new conservative administration. A successful sale is vital to help curb France's public sector deficit and to ensure a smooth start to the government's privatisation programme.

Mr Mer has already done much to support his case. Having inherited Usinor and Sacilor, which had seen their capital bases wiped out by heavy losses in the 1970s and 1980s, the chairman merged the French steel producers into a single group. He then extended its international operations through a series of acquisitions and, most importantly, returned it to profit.

In so doing, Mr Mer has demonstrated that it is possible to restructure a smokestack public company in France, in spite of resistance from trade unions and intensifying competition from east Asian and east European manufacturers.

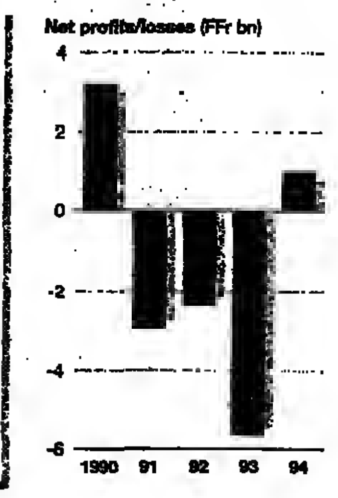
He now has to convince the investment community, wary of cyclical stocks and the political sensitivities of a French industrial flagship.

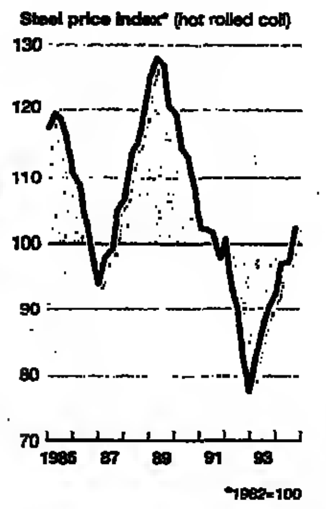
The task is made easier by Usinor's recovery. Last year, the group achieved a net profit of FFr1bn ($202m) after a loss of FFr5.7bn in 1993.

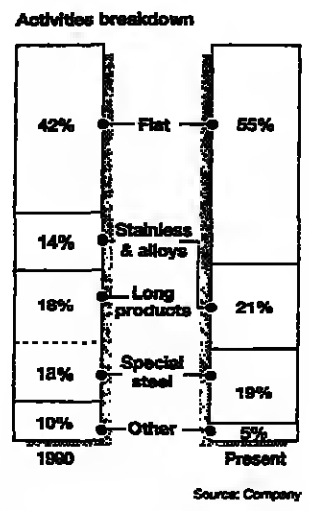
This year, profits could rise to FFr4.9bn, according to forecasts by the Banque du Louvre. The value of the group is estimated at about FFr20bn.

Usinor Sacilor

Francis Mer chairman







The turnround partly reflects exceptional gains, such as the proceeds from last year's flotation of Ugine, Usinor's stainless steel division. But it is also attributable to deep-rooted restructuring. The workforce has been cut to just under 60,000 from more than 102,000 when Mr Mer took over.

Output has shifted towards higher value-added products, such as stainless steel, which now account for almost one-quarter of sales.

Efficiency gains mean that it takes less than three hours per worker to produce one ton of steel, compared with more than five hours in 1986.

"They have made a lot of progress in reorganising the business structure and their products," says Mr Martin Doble, director of Beddows & Co, the steel industry consultancy.

"In areas such as flat rolled steel they are among the industry leaders," he says.

However, in spite of the transformation achieved by Mr Mer and his team, areas of concern remain. These range from weak points in the group to the cyclical nature of the steel industry.

For the moment, the cycle presents a rosy picture. Increased demand after the recession of 1992-93, combined with capacity closure by European producers, has prompted a marked recovery in prices. The cost of flat rolled products has climbed by between 8 and 20 per cent a ton over the past 12 months, depending on the specific items and the geographical market.

But one certainty in the steel industry is that the rise will be followed by a fall. In the US, the market appears to have peaked. Europe, which started its upturn about a year later, is expected to peak in 1996, according to many industry analysts.

The upturn helps explain the French government's desire to move quickly in privatising Usinor. But how concerned should potential investors be about the threat of a downturn?

Reduced prices and demand would exacerbate Usinor's weaknesses. Although reduced in scale, some of Usinor's long products businesses, which supply rods and wire, are vulnerable to overcapacity in the industry and to competition from lower cost producers in eastern Europe.

An industry downturn would also renew pressure for restructuring measures. Given the priority attached to the fight against unemployment by France's conservative government and the potential militancy of trade unions, Usinor may have limited room for manoeuvre.

Arguably, the cyclical concerns are sharpened by Usinor's strategy. Unlike many of his counterparts, Mr Mer has rejected diversification.

His "all steel" strategy contrasts with that adopted by several rivals, such as Thyssen of Germany, which have branched into markets such as telecommunications to seek growth and to smooth the volatility of the industry.

But Usinor is sanguine in the face of such concerns. Mr Mer is taking steps to restructure the problem areas. Last year, for example, Usinor sold its steel reinforcements business to ASW of the UK.

The Usinor chief believes that much of the hard work has been completed. "The period of massive job cuts is a thing of the past," he says.

As for the concentration on steel, many analysts regard specialisation as a strength. "It is much better to focus the steel assets rather than confusing them with other businesses," says Mr Doble.

Growth is forecast to come from new geographical markets and from increased efficiency and technology. Earlier this month, for example, a Usinor plant in northern France produced a record 52 tons of stainless steel strips in 80 minutes using a new technique, Myosotis.

An "all steel" strategy, however, requires a strong balance sheet. Mr Mer has steadily reduced the group's debts, to about FFr17bn from FFr24.4bn at the end of 1993.

A FFr5bn capital increase as part of privatisation will assist him towards his goal of zero net debt by the end of 1997.

"The new capital is an important sweetener," says one Paris banker. "Investors want to be reassured that the balance sheet can withstand blows from the sector."

Whether the extra capital makes the privatisation sweet enough will depend on the price of the issue. Faced with a budget deficit target of FFr275bn this year, the government faces pressure to maximise the price and hence the receipts from the sale.

However, Mr Mer and the investment community can take heart from another consideration: the importance of the operation, and the fact that it is launching the privatisation programme of the new administration, means that the price of failure would be higher still.

French group claims diesel fuel innovation

By John Ridding in Paris

Rhône-Poulenc, the French chemicals and pharmaceuticals group, said yesterday it had developed a technology that can reduce carbon emissions from diesel fuel, a pollutant and a health hazard, by between 80 and 90 per cent.

The system, which involves adding a rare earth derivative to the diesel fuel and the use of a metallic or ceramic filter, is being tested on vehicles belonging to the RATP Paris urban transport authority and to Trois Suisses, a mail order delivery company.

The new technology allows carbon particles to be burned at a lower temperature than usual.

The particles are destroyed at a temperature of between 300°C and 400°C, compared with the 600°C temperature normally required.

Concerns about the hazards of emissions from diesel engines, which equip about one-fifth of passenger cars in the European Union, have prompted the EU to enact regulations limiting the legal emission level.

Rhône-Poulenc said that its technology, which is competitive in price with existing systems, would enable diesel engines to satisfy the emission standards set for 2000. These call for a reduction of carbon emissions of about 70 per cent from present levels.

Diesel, which is more fuel efficient than petrol, is particularly popular in France, where about half of new cars are equipped with diesel engines.

INTERNATIONAL COMPANIES AND FINANCE

Marketing costs behind decline at Amer

By Hugh Carnegy in Stockholm

High marketing costs and adverse currency trends hit profits in the first four months at Amer, the ambitious Finnish group which has evolved into the world's second largest sporting goods maker based on the Wilson, MacGregor and Atomic brands.

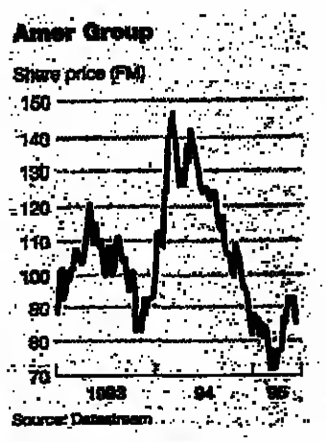
Profits before taxes and extraordinary items slipped to FM75m ($17.4m) from FM81m in the same period last year, due in part to the costs involved in a marketing push in the US, Amer's biggest single market, for Wilson tennis, baseball, golf and football equipment and MacGregor golf equipment.

The weakness of the US dollar also reduced earnings when translated into Finnish markka. The currency effect, combined with the effects of divestments, meant group eales fell 17 per cent to FM2.2bn from FM2.6bn last time. Sporting goods accounted for FM1.35bn, down 1 per cent. Operating profite fell to FM132m from FM142m.

The reverses prompted a sharp fall in Amer's share price which dropped FM6.50 to close at FM85.

But Amer said sales slipped just 5 per cent when adjusted for exchange rate fluctuations – and underlying profits were up 10 per cent.

The group is pushing ahead with its strategy of focusing on branded sporting goods worldwide, predicting full-year group sales of FM6.5bn and profits ahead of last year's FM272m before tax.



Late last year, Amer bought Atomic, the Austrian winter sports equipment maker. Yesterday it said it was launching a full-scale restructuring of the sporting goods division to extract maximum synergies from its key brands. Mr Seppo Ahonen, group chief executive, has moved from Helsinki to Chicago for at least a year to take charge of the changes.

The sports division will be split into six units – Wilson golf, Wilson racquets, Wilson team, MacGregor golf, Atomic (mainly ski equipment) and Oxygen (making snow boards and "in-line" roller skates). The six will be organised under a matrix management structure, each responsible for its own marketing but combining sales, administration and logistics in different geographic areas.

Amer's push to expand has coincided with flat demand worldwide for both tennis and alpine ski equipment. This year, fastest growth has been for Oxygen snow-boards and in-line skates – it will make more than 500,000 pairs of the latter this year compared with 150,000 last year.

Amer, originally a tobacco company, still has significant interests in vehicle sales and tobacco in Finland. Automotive sales rose 5 per cent in the first four months to FM718m, but Amer is seeking to sell its core Toyota dealership back to Toyota because of low profitability.

The tobacco division, based on a licence to make Philip Morris products, saw sales fall by 8 per cent to FM111m.

Hardie ahead 44.8% to A$69.5m

By Nikki Tait in Sydney

James Hardie, the Australian building materials group, yesterday announced a sharp improvement in profits for the year to end-March, with the after-tax total before abnormal items reaching A$69.5m (US$50.02m), an increase of 44.8 per cent over the previous year.

Hardie attributed the advance to the recent restructuring at the group, and to a strong increase in profits from its US interests. It added that all its main operations had performed better, with the exception of the pipelines division. This was hit by rising raw materials prices and very competitive markets.

The profits advance came on sales of A$1.73bn, up 6.8 per cent on the 1993-94 figure. The bottom line also benefited from a A$5.1m abnormal surplus, compared with last time's A$33.8m charge, leaving profits after tax and abnormals at A$74.6m (A$14.2m). Earnings per share before abnormals were 38.1 per cent ahead, at 18.5 cents. The final dividend goes up to 6.5 cents a share against 6 cents, making a total of 13 cents.

Hardie said that pre-tax profits from its core building products division rose to A$97.2m, from A$67.6m, while building services moved from a A$5.1m loss in the previous year, to a A$7.4m profit. The irrigation interests made A$9.4m against A$5.5m, but the pipelines business slipped to A$14m from A$18.6m.

On a geographical basis, the bulk of the improvement came from the US and New Zealand, where operating profits were A$21m and A$28.3m respectively, compared with A$1.5m and A$15.9m. Profits from Australia eased slightly to A$43.2m from A$45.2m.

Hardie acknowledged that home construction was declining in Australia, but said it expected renovations activity to remain fairly strong. It was more optimistic about the US, where new plants are coming on stream, but said that building materials markets in Asia remained "very competitive".

Health law costs hurt Rembrandt

By Michael Holman in Johannesburg

The cost of compliance with health warning regulations for tobacco products helped dent profits at the Rembrandt group, the South African conglomerate with investments in tobacco, industry and mining, in the year ending March 1995.

Net income from normal business operations rose to R1.10bn ($299m) from R1.05bn.

Turnover increased 14 per cent to R5.37bn from R4.70bn.

Excluding the R47m cost of complying with government health regulations and other abnormal provisions, attributable earnings advanced 10 per cent to 221.8 cents a share from 200.9 cents.

Results were below expectations, but analysts pointed to the company's dominant 86 per cent share of the South African cigarette market.

As in many developing countries, tobacco consumption is on the increase among blue collar workers, which is expected to compensate the group for the health warning costs.

Earnings after provisions increased 5.2 per cent to 211.3 cents a share from 200.9 cents.

Restructuring group operations "to maintain cost competitiveness" incurred a further pre-tax charge of R37m.

Rembrandt's share of financing costs for Vodacom Group, one of South Africa's two cellular telephone networks, accounted for an attributable loss of 6.3 cents a share, compared with 0.6 cents a year earlier. The group also wrote off R114m of its investment via mining house Gold Fields of South Africa in the troubled Northam platinum mine.

Ordinary dividends for the year increased 15 per cent to 49.96 cents a share from 43.44 cents.

Indian carmaker back in black

By Shiraz Sidhva in New Delhi

Premier Automobiles, India's second-largest carmaker, has returned to profit after nearly three years of losses. It returned net earnings of Rs61m ($1.94m) in the second half of the year to March 31 1995.

The company said the results had benefited from a boom in the Indian automotive market. But full-year sales fell to Rs2.22bn from R2.89bn because the group now operated from only two plants, at Kurla and Chinchwad, both in Maharashtra. A third plant, at Kalyan near Bombay, was sold to Premier's joint venture company with Peugeot of France last September.

The joint venture has begun manufacturing Peugeot's 309 model, sales of which will start later this year.

Before the government liberalised the Indian car industry in 1992, Premier, which has manufactured cars under a technical collaboration with Fiat of Italy since 1954, shared a virtual monopoly of the market with Hindustan Motors, the Calcutta-based group which makes the Ambassador.

Over the past five years, however, Maruti Suzuki, a joint venture between the Indian government and Suzuki of Japan, has provided tough competition to the Fiat and the Ambassador. Premier recently tied up with Fiat again – this time to make the Uno, a small car to compete with Maruti's popular 800cc model.

Though some of the world's largest names will enter the Indian car market over the next two years, there is still a demand for diesel and petrol versions of Premier's sturdy Padmini model. This has changed little in 20 years, and often has a lifespan of more than 20 years on Indian roads.

Indonesian bank set to increase capital

Indonesia's PT Bank Papan Sejahtera is expected to increase its capital to Rp250bn ($70.59m) from Rp100bn to strengthen its core business of providing housing loans, according to Mr A. Asmuadji, the bank's president director, Reuter reports from Jakarta.

Mr Asmuadji raised the issue after the company's annual meeting in response to reports that a unit of Steady Safe, a taxi company, had acquired a 22.52 per cent stake in the bank, making it the largest shareholder.

Various parties have voiced concern that the acquisition would distract the bank from its core business. Compared with many other commercial banks, BPS has relatively low lending rates.

Bapepam, the capital market supervisory agency, is also reported to have questioned parties involved in the deal following allegations of insider information.

However, Steady Safe's president director, Mr Jopie Widjaya, told reporters after the BPS shareholders' meeting there was nothing wrong in the deal, which had been made open to the public since last year.

Softbank expands its US operations

Softbank, Japan's largest computer software distributor, has bought a stake in an unlisted telemarketing company in the US to expand its telemarketing business there, Reuter reports from Tokyo.

Softbank has bought an undisclosed stake in Upgrade Corp of America of Buffalo, New York, and intends to merge the company with its California-based telemarketing affiliate, Alexander and Load.

The merger is planned for June 30. Softbank will take a 69.5 per cent stake in the new company, UCA&L, in exchange for $21.7m in cash and part of A&L's assets to be given to UCA shareholders. Softbank would not place a value on the A&L assets to be given to the UCA shareholders. Softbank owns 49 per cent of A&L.

● Homestake Mining has agreed with Navan Resources to buy a "significant" interest in the Chelopech gold-copper operations located 45 miles east of Sofia, Bulgaria, reports AP-DJ in San Francisco.

Homestake initially will buy 6m newly issued Navan shares, representing about a 10 per cent interest, for $24m.

Homestake said Navan committed to invest $12m of the share-purchase proceeds in the Chelopech operation.

Homestake said it also has an option, expiring in January 1996, to buy 50 per cent of Navan's wholly-owned unit, which currently owns a 68 per cent indirect interest in the Chelopech operation.

CONTRACTS & TENDERS

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Buy-out specialists eyeing US insurers

Multi-line groups need a more efficient operating structure, writes Richard Waters

The US buy-out industry has been salivating over the prospect of a multi-billion dollar insurance deal for some months: now, finally, it has something to chew on.

Aetna Life and Casualty, the US's biggest shareholder-owned insurance concern, is understood to be in talks with several investors about selling a substantial stake in its property/casualty unit. The third-largest underwriter of property/casualty risks in the country, Aetna has for several months been studying ways to cap its exposure to environmental liability claims and deal with unprofitable units. Now, it seems, it is close to settling both issues in one fell swoop.

If completed, the transaction would be the largest in a recent spate of big insurance deals, and could mark the first in a series of disposals by multi-line insurers. Others widely said to be looking to shed troubled property/casualty operations include Cigna, another of the biggest investor-owned insurers, and Hartford, owned by entertainment conglomerate ITT.

Prudential Insurance, the biggest of them all and a mutual concern, is also bent on selling some of its less profitable operations. To date, it has only announced plans to dispose of its residential mortgage business and reinsurance subsidiary, but Prudential is not expected to stop there: in common with Aetna and other big multi-line insurers, it has found the property/casualty business a drag on its financial health.

Moody's Investors Service, the US rating agency, cited "the weak profitability and high risk profile of some of Prudential's non-life subsidiaries" when it cut the mutual insurance company's financial strength rating to Aa3 in April.

A number of buy-out funds have been lining up the capital to mount large-scale transactions for at least 18 months.

"The big multi-line companies have all got to find a more efficient operating structure," says Mr Philip Petronis, a managing director of Marsh MacLennan Risk Capital, which together with J.P. Morgan has raised $667m for an insurance buy-out fund known as Trident.

"There are lot of properties in the market like Aetna," says Mr Petronis. Most are smaller, he says, but "there are a number of large properties as well. There is a realignment of capital under way".

Losses on environmental and other types of liability insurance only partly explain the shift. In spite of some signs of improvement in recent months, the commercial property/casualty insurance business has failed to rebound from a prolonged cyclical slump. That has exposed the weaknesses of the less well-managed companies, typically broad financial groups for whom this was only a sideline business.

"Companies used to be able to shield those problems with big capital gains," says Mr Daniel Doctorov, a managing parter of Insurance Partners, another of the recently established specialist insurance funds. "That game is over."

The problems have been well-known for some time. Now, though, a new generation of managers has appeared at senior levels in the US insurance industry, many of them brought in from other parts of the financial services world.

Among those to inject new managers are Prudential, USF&G, Transamerica, Continental and Travelers – the last two due to acquisitions, by CNA and the former Primerica respectively. Like Mr Arthur Ryan, new chairman of Prudential, many of these managers want to put long-festering problems behind them quickly.

In addition to Trident and Insurance Partners, which last year raised $540m, specialist insurance funds include those run by Conseco, which bid unsuccessfully for Kemper last year, and Boston-based Century Capital.

Some of the biggest general buy-out funds have also targetted insurance. Morgan Stanley Capital Partners, the most successful of the private equity units linked to a big Wall Street house, has already backed companies in catastrophe reinsurance and mortgage insurance, as well as a new Chinese insurance venture.

"We are looking for big areas of the economy where capital is in short supply," says Mr Donald Brennan, head of Morgan Stanley CP.

In spite of the presence of these large pools of capital, most buyers still say there are more opportunities than they can handle – in spite of the fact that buy-out funds lost out in the three biggest insurance industry deals of the past year.

Besides Conseco's failure to buy Kemper (the company fell to Zurich Insurance, backed by Insurance Partners), Continental was bought by CNA Financial, topping a bid by Insurance Partners, and Home Holdings was acquired by Zurich, which outbid Trident.

The weakness of the dollar has supported Zurich's entry in the US market, says Mr Petronis. "Kemper was bought with Swiss francs. We couldn't have paid that sort of price in dollars."

Aetna itself refused to confirm yesterday that it was in discussions to sell a stake in its property/casualty operations, though it said it was close to completing a broad strategic review, and would soon also announce plans to deal with its environmental liability exposures.

With a book value of $3bn and premium income last year of more than $5bn, Aetna's property/casualty insurance operations would be a big bite even for the biggest buy-out funds. According to one financier, however, the company is at this stage discussing selling only a minority stake in the group.

The price will depend greatly on how big a charge-off Aetna will have to take to end its environmental liabilities – and how big a discount to book value the company has to accept in the sale.

A deal was generally expected to value the whole unit at around $2bn, after the write-off.

NEWS DIGEST

Leopard II tank orders give boost to Krauss-Maffei

Krauss-Maffei, the German maker of tanks and locomotives, said orders in 1994 rose 126 per cent to a record DM2.9bn ($2.07bn) after Sweden ordered 120 Leopard II tanks and the Netherlands and Germany signed deals to modernise about 400 vehicles, writes Michael Lindemann in Bonn.

The Munich-based group also said that it expected to be able to sell an unspecified number of tanks to Spain after a memorandum of understanding was signed between the German and Spanish governments.

According to press reports, Spain wants to buy 390 tanks, but the company could not confirm the size of the deal.

Krauss-Maffei, which is 72 per cent owned by the Mannesmann engineering group, said turnover in 1994 fell 2 per cent to DM1.49bn, mainly because of falling sales in the armaments division. Net profits rose to DM4.5m, up from DM1.1m the year before.

However, following the tank orders, sales would rise to DM1.8bn this year and would climb to about DM2.1bn in 1996.

Mr Burkhard Wollschläger, chief executive, said the new orders for tanks would guarantee jobs until 2000 in the group's shrinking armaments division, which makes up 28 per cent of group turnover.

Accounting switch at Woodside Petroleum

Woodside Petroleum, the Australian oil and gas company which is a leading operator of the North West Shelf project, said yesterday that directors had approved a change in accounting policy relating to the depreciation of certain assets, writes Nikki Tait in Sydney.

This more favourable treatment, which has the support of Ernst & Young, Woodside's auditors, will take effect from January 1 1995. Had the new policy been in effect in 1994, the depreciation charge would have been A$110m (US$79.2m), compared with the actual charge of A$134m.

More Qantas shares for foreign investors

Australia's federal parliament yesterday passed legislation increasing the permitted foreign ownership level in Qantas, the government-controlled airline, to 49 per cent from 35 per cent, writes Nikki Tait. This change, announced in last month's Budget, will allow more shares to be sold to foreign investors when the privatisation of the federal government's 75 per cent stake in Qantas gets under way later this month.

Meanwhile, Qantas said yesterday it was awarding a A$194m contract for the redevelopment of its domestic terminal in Sydney to a unit of Lend Lease, the Sydney-based property and financial services group. The work, due to be completed by December 1997, adds five gates, taking the total to 15, plus a satellite lounge with a further seven gates.

Mirror sells remaining shares in Donohue

Mirror Group, the UK newspaper publisher, has sold its remaining stake in Donohue, the Canadian forest products group, writes Robert Gibbens in Montreal.

The 3.7m Donohue shares, or about 5 per cent of the total outstanding, were sold to an investment syndicate led by Levesque Beaubien Geoffrion and RBC Dominion Securities, and placed privately. The price was not revealed, but Donohue stock has been trading at around its 52-week high of C$21.50.

The late Mr Robert Maxwell, through Maxwell Communication Corporation, bought control of Donohue with Mr Pierre Peladeau, chairman of the Quebecor printing and publishing group, through a joint holding company. This was held 51 per cent by Quebecor and 49 per cent by the Maxwell group. The structure was reorganised and the Maxwell holdings of Donohue stock moved to Mirror Group.

Mirror Group sold most of its holding in Donohue in 1992. Since then, under Quebecor's leadership, Donohue has expanded in to western Canada and has become one of North America's lowest-cost newsprint producers.

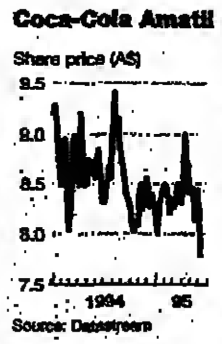
Jamaican brewery registers growth

Desnoes and Geddes, the Jamaican brewery in which Guinness of the UK has a 51 per cent interest, posted net profit of J$239m (US$7.6m) in the 15 months ended December 1994, writes Canute James in Kingston. This is J$80m more than the net profit for the previous 15 months.

The 15-month period has been used by the company to change its accounting year, which will now be the calendar year. Guinness bought the majority interest in Desnoes and Geddes in September 1993 for £41m (US$65.2m).

The company's turnover increased by J$2.7bn to J$4.9bn, while exports grew by 4 per cent. About J$750m will be spent this year on improving the brewery, said Mr Michael Cunnah, vice-president for finance.

Coca-Cola Amatil dips on rights issue fears



Shares in Coca-Cola Amatil, the Australian soft drinks company in which the Atlanta-based Coca-Cola group holds a 49.7 per cent direct interest, fell sharply yesterday, amid speculation that the company is poised to announced a large rights issue, writes Nikki Tait. By the close, they were 33 cents lower at A$7.90.

In response to queries from the Australian Stock Exchange, CCA said no decision had been taken on any capital-raising, and it was therefore unable to comment further. The CCA board is due to meet later this month, for a regular bi-monthly meeting.

Some analysts, however, pointed out that the company has been fairly active in terms of acquisitions recently, both in eastern Europe and Asia Pacific, and funds to continue such a programme might be desirable.

There has also a recent increase in the number of rights issues and equity issues on the Australian market, with Qantas poised to launch its A$2bn share offering later this month.

Hudson's Bay plans to raise C$500m

Hudson's Bay, Canada's biggest department store group, plans to raise up to C$500m (US$362.6m) by issuing new debt securities, including medium-term notes, writes Robert Gibbens. Filings are under way in Canada and the new securities will be unsecured obligations and offered in series through underwriting groups.

● Algoma Steel, tha Canadian steelmaker which is planning share and note offerings in North America to raise a total of C$527m, will use the proceeds to retire preferred shares and finance a C$400m thin-slab costing and bot-strip mill.

KOP joining FT-SE Eurotrack 100 Index

KOP, the Finnish Bank, is joining the FT-SE Eurotrack 100 Index to replace Dutch bank ABN Amro Holdings, the FT-SE Eurotrack Indices Committee decided yesterday, writes Philip Coggan, Markets Editor. Companies on the reserve list for future inclusion are ASEA, Swiss Re, Banca Commerciale Italiana, Sanofi, Commerzbank and ABN Amro.

Masco to divest furniture unit

By Richard Tomkins in New York

The world's biggest furniture business was in effect put on the market yesterday when Masco, the US building products group, announced plans to dispose of its home furnishings division for at least $1bn.

The division makes some of the best known branded furniture in the US under names that include Henredon, Drexel Heritage and Lexington. It includes upholstery businesses, fabric suppliers and three distribution companies.

The home furnishings business employs 33,500 in the US, south-east Asia and the UK. Last year, it made operating profits of $80m on sales of $1.9bn.

Masco said it planned to dispose of the division because its returns did not match those of the rest of the group. Last year, it accounted for 42 per cent of Masco's total sales, but less than 14 per cent of total operating profits.

Masco said it was exploring the possibility of an outright sale of the division, or the creation of an independent company through an initial public offering, or a spin-off to Masco shareholders.

The current value of the home furnishings division is estimated by Masco at well in excess of $1bn. However, since the book value of the division is about $1.7bn, the divestiture is expected to result in a substantial write-off.

Masco is a big US manufacturer of kitchen and bathroom products. Last year, it came close to taking over Spring Ram, the UK kitchen and bathroom products group, but the two could not agree on a price.

Masco built its home furnishings division through a series of acquisitions between 1986 and 1994. Mr Stephen Dobi, an analyst at Goldman Sachs, said the strategy failed to live up to expectations because consumers had shifted their spending away from traditional furniture towards other priorities such as travel or electronic goods.

"Companies like Henredon and Drexel Heritage were traditionally high margin companies, but Masco had to respond to an increasing lack of interest in furniture by having more value pricing, so they no longer had the profit margins they once did," Mr Dobi said.

Du Pont to float off part of photomask side

By Tony Jackson in New York

Du Pont, the US chemical group, is to sell off part of its photomask business in a public offering. It had not yet determined its value, Du Pont said. However, the business had sales last year of $150m, and Du Pont said it had invested approximately $300m-$400m in building it up.

Photomasks are used in the manufacture of semiconductors, to transfer circuit patterns to silicon wafers. Du Pont claims to be the world's largest merchant supplier.

Du Pont, which is being advised by Morgan Stanley, said it hoped to finalise terms by the end of the year. It will retain a majority stake in the new company in the first instance, though it may go to a minority position later.

Mr John Hodgson, managing director of Du Pont Electronic Materials, said that the proceeds of the IPO would be shared by Du Pont and the new company. Some of Du Pont's proceeds would be used to pay down the debt incurred by the company in its recent purchase of its own shares from Seagram, the Canadian drinks group.

However, this was not the chief motive for the deal, Mr Hodgson said. It had already been decided that the mask business should be independent, so that it could compete on a more entrepreneurial basis.

Unitel seeks potential investors

Unitel, the loss-making Canadian long distance telecoms group, said it had hired J.P. Morgan, the US investment bankers, to seek potential buyers and "review alternatives for restructuring the business," writes Robert Gibbens in Montreal.

Mr Stan Kabala, Unitel president, said the company was a viable long distance competitor to Bell Canada and allied companies, with a valuable customer base and strong assets.

"We're looking for long-term investors," he said. "We feel knowledgeable investors will recognise Unitel's real value."

Rogers Communications of Canada recently refused an option to buy Canadian Pacific's 48 per cent interest in Unitel for C$200m (US$146m). That would have raised its holding to 66.7 per cent from 29.5 per cent. AT&T, the US long-distance telecoms group, owns 22.5 per cent.

Howaver, Unitel said Rogers and AT&T may be interested in increasing their positions, although it said no decision had been made whether either would submit an offer.

Unitel lost C$239m last year, although first-quarter 1995 revenues were up 31 per cent and traffic up 82 per cent.

Caterpillar to buy back shares

By Laurie Morse in Chicago

Caterpillar, the US maker of construction equipment, said it would buy back 20m shares, or about 10 per cent of its stock, over tha next three to five years, and also raised its quarterly dividend.

The decision to raise the company's quarterly pay-out to 35 cents a share, from 25 cents, puts the dividend sligbtly higher than where it was in early 1982, just prior to an industry downturn.

It ia the third dividend increase in the past 12 months.

Commenting on the share buy-back, Mr Donald Fites, Caterpillar's chairman, said: "Tha strategic initiatives we have pursued in the past several years to modernise our plants, reduce costs, improve quality, invest in new products and expand into new markets have positioned us exceptionally well for the long-term."

Analysts said the mova reflacted management's long-term confidence in the company's prospects. "This is a signal that the company doesn't intend to squandar cash on acquisitions or large capital expenditures," said Mr Barry Bannister, a vice-president of equities research at S.G. Warburg in New York.

He described the buy-back as a good use of the company's capital, noting that management was maximising profit margins by not embarking on a expansion programme at the top of a business cycle.

Caterpillar, which had $14.3bn in sales last year, has had five quarters of record earnings.

£679m deal with SBC Cablecomms gives fillip to Nynex flotation

TeleWest confirms merger

By Christopher Price and Raymond Snoddy

Consolidation of the UK cable industry is likely to gather pace following TeleWest's confirmation yesterday of its £679m ($1.07bn) merger with SBC Cablecomms, the fifth biggest operator.

The deal provided a fillip to the proposed flotation of Nynex, TeleWest's nearest competitor, which is due to unveil the price of its shares today.

Market sources believed it might help to strengthen the price during last-day negotiations with institutional shareholders.

Mr Eugene Connell, chief executive of Nynex and chairman of the Cable Telecommunications Association said yesterday: "My best guess is that within two or three years there will be four or five players controlling 90 per cent of the market." There are 16 operators at the moment.

The deal, in which TeleWest will gain full management control, values SBCC at £679m and puts a market capitalisation of £2.3bn on the new enlarged group. The new TeleWest will have potential coverage of 4.1m homes, well clear of Nynex, at 2.3 homes, and close on 25 per cent of the franchised UK cable market. It will have 353,000 television subscribers and 318,000 telephone customers.

SBCC's joint shareholders, Southwestern Bell and Cox Communications, will each hold a 10 per cent stake, with TeleWest maintaining a 26.75 per cent holding. One director from each of SBCC's shareholders will sit on TeleWest's board.

The current public shareholding of 24.3 per cent of the economic interest is diluted to 17.2 per cent, although the corresponding rise in the number of subscribers represents a marginal increase in the long-term ownership of their assets.

TeleWest is to receive additional credit facilities of £450m to pay for the capital expenditure of the enlarged group. Meanwhile, latest figures from the Independent Television Commission show the cable industry has revenues of £230m a year and the number of subscribers continues to increase. By the beginning of April there were 963,132 subscribers to modern cable networks compared with 642,377 a year ago.

Exceptionals hit Pilkington but benefits of cost cutting shown

By Tim Burt

Pilkington, the world's largest glass manufacturer, yesterday demonstrated the benefits of its long-running cost-cutting programme with e doubling of underlying profits.

The group, which has reduced its cost base by 12 per cent in the past three years, said improved productivity and rising demand helped lift pre-tax profits from £72m to £144m before exceptional items.

Announcing his last results as chairman, Sir Antony Pilkington said the group was increasing its market dominance "with margins on an upward trend, improving demand, increased capacity utilisation and strong cash flow."

The gloss was taken off the results, however, by £406m of exceptional charges which were expected.

Accounting changes forced Pilkington to charge £375m for goodwill on its Visioncare contact lens business, even though it had been written off against reserves when the company was acquired eight years ago.

It also endured a £31m charge to cover settlement of a 10-year legal dispute with US rival PPG Industries.

Sir Antony – who hands over to Mr Nigel Rudd, chairman of Williams Holdings next month – said he expected this to be the last time Pilkington announced such large charges.

After exceptionals, the group reported pre-tax losses of £248m (£97m profits). The shares, nevertheless, rose 11p to 189p after it said the charges would have no impact on its balance sheet, which looked rosy after borrowings fell £142m to £602m – their lowest level for six years.

Mr Roger Leverton, chief executive, said the improvement had been fuelled by success in pushing through price increases for its building products. He warned that there would be significant job cuts.

Trevor Humphries

Sir Antony Pilkington, left, with Roger Leverton – holding a windscreen from a Range Rover

Retailing director leaves WH Smith

By Neil Buckley

Mr Peter Troughton, managing director of UK retailing at W.H. Smith, is leaving the company by mutual agreement, shortly after the group issued a surprise profits warning.

Mr Troughton, 47, a main board director, was managing director of W.H.Smith retail – the group's core chain – from April 1991 to February 1994. Sales in this arm fell 1.3 per cent and operating profits dropped 18 per cent in the 11 months to April, leading to the warning two weeks ago.

Most recently, Mr Troughton had overall responsibility for the group's three UK retail divisions – W.H.Smith, Waterstones and Virgin/Our Price – reporting to Sir Malcolm Field, group chief executive. He leaves at the end of July and will not be replaced.

"The main reason for the departure was that after reviewing the role of the managing director of UK retailing we decided the role should come to an end," said W.H.Smith yesterday.

"We felt that the reporting lines of all our UK retailing businesses would improve if they were shorter, and direct to the chief executive."

The company insisted Mr Troughton was not taking the blame for the poor results at W.H.Smith retail.

The managing directors of the UK retailing divisions – Mr Peter Bamford at W.H.Smith, Mr Alan Giles at Waterstones, and Mr Simon Burke of Virgin/Our Price – will join the chief executive's committee alongside Mr John Napier, finance director, and Mr David Roberts, distribution and support services director.

W.H. Smith's shares fell 3p to 352p, against 416p before the profits warning, with analysts divided over the likely results of the departure.

Mr Trongbton's pay-off is still being negotiated. He received a basic salary of £180,000 and was on a two-year contract.

LEX COMMENT

Pilkington

After an impressive turnround, the question is whether Pilkington's glass is now half-full or half-empty. Higher volumes, better margins and a successful cost-cutting programme contributed to a doubling of profits last year before tax and exceptional items. The company has reduced gearing to around 50 per cent and cut working capital to less than 15 per cent of sales. It has refocused on its core business, and last year's heavy crop of exceptional items is unlikely to be repeated.

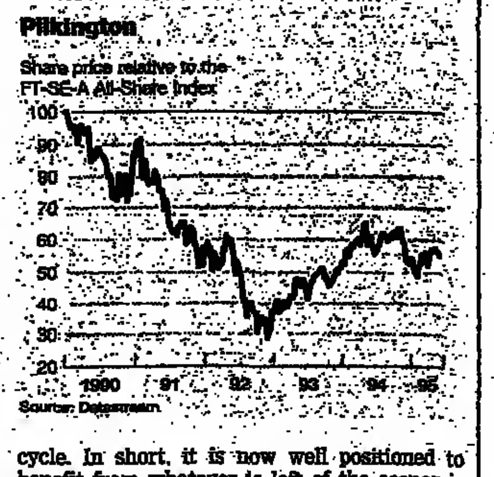
But glass remains a cyclical business. The company should cut costs by more than inflation this year. But the scope for reductions thereafter may be limited, with the cost of working capital likely to rise. Economic slowdown in Latin America or the US could be close at hand, and a soft landing is not assured.

Still, the fact remains that Pilkington is a late cycle company. Capacity utilisation is high within the industry, and margins have further to rise. Pilkington's plant is being used more effectively, with the recent restructuring reducing the build-up of inventory. And, this time round, Pilkington is avoiding the pitfall of increasing capacity substantially late in the cycle. In short, it is now well positioned to benefit from whatever is left of the economic upturn.

The company's broad geographic spread gives some protection against economic recession, but it also makes the peak in Pilkington's earnings hard to call. The signs are, though, that the bulls still have a few years to run.

Pilkington

Share price relative to the FT-SE-A All-Share Index



Source: Datastream

Four banks confirm sale of a further 21% of 3i

By Norma Cohen, Investments Correspondent

The four large bank shareholders in 3i, the UK venture capital investment trust, yesterday confirmed their intention to sell a further 21 per cent of the share capital, raising the total percentage of the traded shares to 69 per cent.

The Bank of England and Lloyds Bank are disposing of their stakes entirely, while Barclays Bank and Midland Bank are selling roughly a third of theirs.

National Westminster Bank and Bank of Scotland, which own 17.8 and 2.5 per cent of 3i respectively, have said they intend to retain their full stakes. The remaining large stakeholders have pledged not to make any further dispositions in 1995.

The share sale is intended to be priced during the week of June 19 and will take the form of a placing to institutional shareholders.

The announcement accompanied 3i's results for the year to March 31, which showed a 10.5 per cent rise in net asset value to 346p from 313p.

3i, which floated last July, said its total funds rose to £2.05bn, from £1.85bn. A final dividend of 4.4p makes a total of 7.2p (6.54p), a rise of 10.1 per cent. The total return for the year was £239m, representing 12.9 per cent on opening shareholders' funds.

The trust's shares, which had been slipping earlier in the week on anticipation of the sale announcement, dipped on the news of its NAV, slightly below some analysts' expectations. It closed down 5p at 367p.

Because of the complex methodology used by 3i to determine NAV, which requires dissection of the FT-SE SmallCap index, it only conducts the exercise itself half-yearly. However, because of the rise in the index since the year-end, analysts yesterday placed the NAV well above that at March 31, with estimates of around 370p.

Regarding the trust's current business, Mr Ewan Macpherson, chief executive, said that 3i had been emphasising its investments in so-called start-up companies, which rose sharply from 1993. The failure rate among this sector has been falling and last year was 80, down from 220 previously.

In the UK, it invested £454m in 532 businesses, up from £315m in 536 the previous year.

3i's survey of business confidence, its Enterprise Barometer, showed that while small and medium-sized businesses remain confident about the future, the pace of improvement shows signs of slowing. Mr Macpherson said that in the past three years, small companies had shown annual growth rates of 20 to 25 per cent, while inflation remained low. "Long term, that is not sustainable."

Northumbrian urges patience as it keeps its powder dry

By Peggy Hollinger

Nortbumbrian Water yesterday joined the growing ranks of ntilities promising to share rising profits with customers and sbarebolders, bnt urged patience as it kept its powder dry for a possible bostile bid battle with Lyonnaise des Eaux of France.

The company announced a 44 per cent rise in pre-tax profits and 16 per cent boost to the dividend and hinted that growth in tbe pay-out could be accelerated through a greater than expected rednction in dividend cover.

Nortbumbrian said it was waiting for Lyonnaise des Eaux to put an offer on the table before it unveiled a customer and shareholder pay-out package. It is the fourth of five water companies which have reported results in recent weeks to promise rebate and dividend packages.

Lyonnaise has said it would not bid before the regulatory process – whicb requires a Monopolies and Mergers Commission inquiry in the case of a takeover offer – is complete. This means it could be well into the antumn before Northumbrian reveals its plans.

Mr Mike Taylor, finance director, said the utility had been "sidelined [by the possible bid] into a different game with a different set of rules".

The company was considering different ways of returning value to investors – including bonus share issues and special one-off dividends.

Eurocamp shares tumble 49p on profits warning

By David Blackwell

Shares in Eurocamp, the tour operator specialising in self-drive family camping holidays, fell 49p to 229p yesterday after a profits warning.

The group said that customers were deferring bookings to later in the season. They were also reacting to the strength of the French franc, now about FFr7.88 to £1.

Mr Richard Atkinson, managing director, said that overall bookings were about 5 per cent higher than last year.

At the time of the annual general meeting in March the group spoke of tough market conditions, but said bookings were sbowing a cumulative increase of just under 10 per cent.

By this time of year Eurocamp has usually sold all its July-August peak holidays. This year it has done better outside the peak season, but has more of the higher priced holidays to sell than is normal.

The effect of the switch in the balance of bookings would hit margins, the group warned. Last year, when profits were £8.65m, margins improved to 12.3 per cent from a previous 11 per cent. In the early 1990s margins reached more than 16 per cent.

Prices for a fortnigbt in France in the peak season, including ferry, are about £850 for a tent and £1,200 for a mobile home. Mr Atkinson said he did not think prices were too high in comparison with package tour bolidays.

He believed that the group was maintaining its market share and had performed well "given the market conditions and the battering the pound has taken from the franc". But consumer confidence was not high, and buyers were not making long-term commitments.

Analysts yesterday reduced forecasts for this year from £9.7m to about £8.8m.

The dividend is expected to be just ahead at 10.75p (10.5p).

Etam warns of trading loss

By David Blackwell

Etam, the fashion retail chain, yesterday warned of an interim trading loss if sales continued at present levels. The shares tumbled 30p to close at 176p.

Mr Stanley Lewis, chairman, told the annual meeting that "the unsatisfactory turnover trend" of last year's second half had continued into this year.

In April Etam reported pre-tax profits for the year to January 28 down by £3.3m to £10.7m, while sales retreated from £220.3m to £218.5m. The group, which had issued a profits warning in February, blamed the downturn on too narrow a range of merchandise in the autumn.

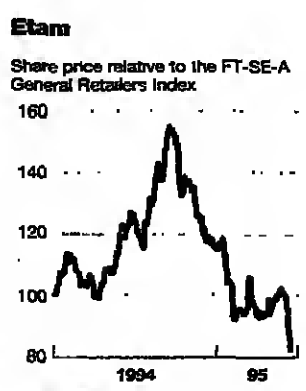
Etam has been going through changes at the top level. Mr Nick Hollingworth, previously bead of the Evans division of Burton, started as managing director at the end of April. Mr Lewis, who with Oceana Investment failed in a hostile bid in 1991, became cbairman in March after the resignation of Sir John Nott.

Mr Lewis said that Mr Hollingworth and the management were "taking active steps to develop tbe appropriate strategies, particularly in the areas of merchandise, marketing and information systems."

Analysts yesterday brought back full-year forecasts from £12.5m to about £8m, although one went as low as £5m, which would leave an unchanged dividend of 7.7p uncovered.

Etam

Share price relative to the FT-SE-A General Retailers Index



Source: Datastream

JM rides global electronics boom

By Kenneth Gooding, Mining Correspondent

Another "star" performance from the materials technology division, whicb benefited from tbe global electronics boom, belped Johnson Matthey, the precious metals technology group, to record a 25 per cent rise in profits before tax and exceptional items, for the year to March 31.

Mr David Davies, chairman, said: "We have focused on the development of our high technology, high added value businesses in global markets. I am confident of further success."

Every division achieved last year the group target of a 20 per cent return on net assets, he said. In the previous year JM achieved a return of 18.5 per cent.

Nevertheless, JM's share price fell by 20p to 568p after the announcement on worries about the performance of the catalytic systems division. This division bas not only been adversely affected by growing weakness in light vehicle sales in the US, but also by the non-renewal of a contract – for 3m catalysts a year – with General Motors, the world's biggest automotive group. Mr Davies pointed out that GM now had its own catalyst business owned jointly with Allied Signal of the US.

He described the catalytic systems division's 6 per cent increase in operating profit to £29.8m as "satisfactory," as was that of the precious metals division which reported a 7 per cent increase to £22.2m.

Materials technology division followed up a 32 per cent increase in 1993-94 operating profits with a rise of 52 per cent to £42.8m. Mr Davies reported there was "an excellent performance by the electronics materials business around the world and a good advance in chemicals operations."

Cookson Matthey Ceramics, set up nine months ago, was off to a good start. CMC's operating results, combined with those from JM's colour and print operations, rose 18 per cent to £15.5m.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Alphameric	Yr to Mar 31	14.5	(10.7)	0.572	(0.433)	1.3	(1.1)	0.25	-	nil	-	nil
Blick	6 mths to Mar 31	28.1	(24)	6.05	(4.98)	14.19	(12.54)	4	Sep 6	3.5	-	11.5
Bradstock	6 mths to Mar 31	17.2	(16.2)	3.5	(4.8)	3.64	(5.35)	1.6	Sep 26	1.6	-	5.7
Chubb Security	Yr to Mar 31	726.5	(701)	89.15	(77.14)	19.2	(16.4)	5	Aug 25	4.25	7.32	6.25
Chrysalis	6 mths to Feb 28	47.1	(33.7)	2.5L	(0.032)	9.92L	(1.35)	nil	-	nil	-	nil
Dewhurst	6 mths to Apr 2	8.04	(5.38)	0.834	(0.685)	4.88	(3.99)	0.9	Sept 4	0.75	-	2.35
Drummond Group	Yr to Mar 31	46.7	(43.6)	0.87	(0.72)	3.17	(1.78)	0.75	-	nil	0.75	nil
GWR Group§	6 mths to Mar 31	14.75	(7.76)	2.06	(0.93)	2.6	(1.76)	0.94☆	Sep 29	0.69	-	1.63
Johnson Matthey	Yr to Mar 31	2,178	(1,955)	95.4	(65.3)	33.4	(23.5)	9.3	Aug 7	8	13.5	11.4
Navan Resources	Yr to Dec 31	8.49‡	(8.33‡)	1.22	(0.67)	1.18	(0.59)	-	-	-	-	-
Northumbrian Water	Yr to Mar 31 □	318.2	(298.6)	90.4	(62.8♠)	116	(83.5)	18.8	Oct 2	16.2	28.2	24.3
Oceonics	Yr to Mar 31	12.7	(24.1)	5.82L	(1.28L)	4.2L	(1.6L)	nil	-	nil	nil	nil
Oxford Instruments	Yr to Mar 26	125.2	(112)	18	(12.8)	23.9	(17)	4	Oct 3	3.4	5.7	4.9
Porter Chadburn	Yr to Mar 31	82.7	(133)	2.96♠	(17.2L♠)	2.55	(17.48L)	nil	-	nil	nil	nil
Pilkington	Yr to Mar 31	2,676	(2,737)	248L	(97)	40.7L	(5.1)	2.7	Aug 18	2.5	4.2	4
Shelton (Martin)	Yr to Mar 31	6.6	(5.9)	0.7	(0.8)	9.32	(10.58)	2.5	Aug 14	2.5	3.75	3.75
600 Group	Yr to Mar 31	116.6	(96.7)	5.74♠	(2.5L)	9.2	(6.5L)	1.5	Aug 18	1	2	1.5
Widney	6 mths to Apr 1	18.7	(15.2)	0.957	(0.638)	0.48	(0.41)	0.075	Oct 6	nil	-	0.2
Investment Trusts		**NAV (p)**		**Attributable Earnings (£m)**		**EPS (p)**		**Current payment (p)**	**Date of payment**	**Corresponding dividend**	**Total for year**	**Total last year**
London Insurance	Yr to Mar 31	95	(95.5)	8.62	(3.01)	3.08	(1.08)	1.75	Aug 25	1	2.75	1
Pilot	Yr to Mar 31	114.7	(137.3)	0.77	(0.57)	2.07	(1.93)	1.25	July 28	0.9	1.8	1.5※
3i Group	Yr to Mar 31	346	(313)	58.1	(50.5)	10.1	(8.7)	4.4	-	4.62	7.2	6.54

Dividends shown net. Figures in brackets are for corresponding period. †On increased capital. §USM stock. ♠After exceptional charge. ‡Irish currency. ‡For 21 months. ☆ Adjusted for subdivision. □ Comparatives restated. ※For 13½ months

CONTRACTS & TENDERS

LEGAL NOTICE

COMMODITIES AND AGRICULTURE

London oil market reaches out to Asia

By Laurie Morse in Chicago and Robert Corzine in London

The International Petroleum Exchange, with the aid of the London Clearing House, will link its Brent crude oil futures and options markets with the Singapore International Monetary Exchange today (FRI), extending the London market's reach into Asia, the fastest-growing oil trading region in the world.

The London/Singapore partnership is designed to give Brent futures and options a competitive edge in the Pacific time zone, and executives at each exchange are betting that their link – more formal than many inter-exchange alliances – will forestall the New York Mercantile Exchange's attempt to gain a foothold in the Asia by trading its West Texas Intermediate Crude oil over computer links.

The battle for oil derivatives dominance in Asia will be characterised as much by style as by content. The IPE has chosen to go with its traditional strength – live trading by open outcry – on the Simex floor. Brent futures will trade in Singapore when the London market is closed, giving the derivatives a live market for 18 hours a day.

The contracts will be identical, meaning traders doing a transaction in one location can offset it in the other, and have a choice of two clearing houses with which to settle their trades.

The link has required that the London Clearing House and the Simex clearing organisation establish close compatibility, an expensive and time-consuming process that IPE executives believe will pay off in the long run.

"We studied a variety of links, and mutual offset was a route that had proven to work well and efficiently, while other routes were quite experimental," said Mr Peter Wildblood, chairman of the IPE. He added that Simex's brush with the Barings disaster did nothing to dent London's enthusiasm for the venture.

Some traders believe the events at Barings may actually give a boost to the new link. Mr Shamus Martin of GNI in London says that after Barings, "more major companies are pushing their people to use exchanges instead of over-the-counter trading. At least they can see what's going on when the trading is based on an exchange".

The only other mutual offset derivatives link is the decade-old agreement between the Simex and the Chicago Mercantile Exchange for Eurodollar futures trading.

Mr William Brodsky, CME President, credits the Singapore connection with giving the CME's Eurodollar futures and options global dominance, eventually squeezing London's Liffe out of the Eurodollar competition. "Once we had Singapore, the world didn't need the small slice of trading offered in the London time zone," Mr Brodsky said recently.

The IPE is hoping for a similar result from its Singapore link. However, the IPE must still demonstrate that there is demand for Brent crude oil futures trading 18 hours a day. Few commodities apart from Eurodollars have proved to be truly global, and most are not actively traded once their underlying cash markets are closed.

Mr Christopher Bellew, a director with Prudential Bache Futures in London, believes the afternoon trading session in Singapore could prove to be particularly popular, as it will be early morning in Europe when the session begins.

"Europeans using the link for early trading could give it a kick start," he said.

Experiments with after-hours trading, like the Reuter-owned Globex computer system, have shown there is limited demand outside a commodity's primary time zone. However, IPE executives are confident there is a need for round-the-clock oil futures trading, and that Brent, rather than West Texas Intermediate Crude, will become the benchmark for Asian oil markets.

They note that Brent is already the pricing benchmark for 65 per cent of the world's crude oils. As the Brent futures contract in Singapore makes Asian pricing more transparent, even more business will be priced on that grade, they say.

The IPE's most immediate challenge is the New York Mercantile Exchange's electronic offering of WTI crude futures in Asia.

The Nymex's regular daytime WTI oil trading volume regularly dwarfs the IPE's London session, and the New York exchange already distributes its oil products in Asia using its Access computer trading system, garnering relatively modest volume.

IPE executives believe live trading will generate more business than the computer market.

The London exchange will have a few months to establish its dominance in Singapore before the Nymex ups the Asian ante. It plans to install its Access computers on the trading floor of the Sydney Futures Exchange in September, giving Nymex WTI futures a live trading population in the Pacific.

Sugar production estimate increased

World sugar production in 1994-95 is estimated at 116.27m tonnes, up from a January estimate of 113.437m tonnes, German statistics agency F.O. Licht said yesterday, reports Reuters.

In its third estimate of world sugar production the German statistician said it expected world beet production in 1994-95 to be 35.175m tonnes, down slightly from a January estimate of 35.26m. But the cane production estimate of 81.095m tonnes was well up from a previous estimate of 78.157m.

Licht said its world production estimate has risen from January because of record crops in Brazil, India and Thailand. "This should be more than enough to meet world consumption needs. Consequently stocks are no longer likely to fall, indeed they might even be increased to a limited extent."

Licht thought it was reasonable to expect an increase in European production in 1995-96 and saw indications that output might also rise in Brazil.

Aluminium trade sees signs of Coca-Cola entering market

By Kenneth Gooding, Mining Correspondent

There is intense speculation in the aluminium industry that Coca-Cola, the US soft drinks giant, is to become an active "player" in the London Metal Exchange's aluminium market.

This is because Coca-Cola has lured Mr William Hovis from the Aluminium Company of America, where he was the senior LME trader.

If Coca-Cola did start hedging on the LME it would result in big changes among aluminium users. At present the group buys its aluminium in the form of beverage cans from can makers. Once the drinks group started to buy its own aluminium, can makers would be relegated to the status of converters.

There are also widespread rumours in the UK aluminium industry that some big car companies are also ready to become directly involved in the LME, a move that would mean a change of relationship with their aluminium castings suppliers.

This possible change of attitude among some of the world's biggest aluminium users has been provoked by the steep rise in the metal's price late last year and early in 1995 and subsequent volatility in the LME price, which influences most contracts signed world-wide.

After the aluminium producers imposed price increases of between 20 and 50 per cent for can sheet, the special alloy used for can making, at the beginning of this year, many can and beverage producers threatened to switch from aluminium to steel.

This week it became known that Continental Can, part of the Viag group of Germany, was to change to steel at one of its two can making plants in the UK and CarnaudMetalBox is believed to be ready to switch two plants in Italy from aluminium to steel.

This brought an immediate response from the LME executive. Mr Ray Sampson, head of marketing at the exchange, pointed out that "by hedging on the LME companies can alleviate many of the problems of price volatility." Mr Lawrence Eagles, analyst at GNI Research, part of the Gerrard & National commodities group, agrees. He says: "Any relatively sophisticated player can offset their risks on the LME".

Whether or not Coca-Cola will start using the LME remains to be seen. Mr Hovis does not take up his post in the company's procurement division until next month and "we do not discuss individual assignments", an official explained. However, she added: "Mr Hovis's expertise in the aluminium and metals market will help us develop more efficient strategies for effective procurement of packaging".

Cocoa market changes studied as delivery quality declines

The London Commodity Exchange is examining a number of potential changes to cocoa procedures following a meeting with industry members, reports Reuters.

Working parties will in the year ahead consider issues including grading, bulk contracts and a 50-tonne delivery unit.

"It was generally agreed that the specifications of the exchange's cocoa contract still meet industry requirements. But the lower quality of cocoa that is increasingly being traded is having an impact on grading and delivery procedures," LCE chief executive Mr Robin Woodhead said in an interview.

Senior members of the LCE, including Mr Woodhead, met 20 companies from the cocoa industry last week. The meeting took place after some traders in Europe lobbied the LCE to consider changes.

At the heart of issue is a decline in the quality of cocoa coming on to the London futures market.

A report prepared for the meeting by commodity consultants LMC International said an increasing failure rate at cocoa gradings was the result of a fall in quality and not grader error as some traders had suggested.

"The problem the trade saw manifested itself through the gradings," Mr Antbony Rucker, LCE operations manager, said.

Mr Woodhead said there was most consensus at the meeting with industry representatives on switching to the use of a 300-bean cut instead of a 100-bean cut when grading cocoa for the futures market.

Some traders had criticised the LCE for failing too much cocoa in the first quarter of the year when record gradings and deliveries took place as spot months reached high premiums.

A Landell Mills report said a 300-bean cut would improve accuracy overall but might nevertheless result in more borderline cocoa being graded as non tenderable.

However, the growing rate of failure at gradings would continue even if a 300-bean cut was used if the quality of cocoa coming to the market from origins declined.

Quality can only be addressed through discussions with the origin growers "which is a role for the trade/industry, not the LCE," the Landell Mills report said.

Prospect of UK competition sparks gas trading plans

By Robert Corzine

The prospect of wider competition in the UK gas market has spawned several proposals for screen-based systems that could form the foundation for Europe's first true natural gas market. The systems being considered in the UK could also act as the basis of a wider European market, say their advocates.

The latest proposal is from the International Petroleum Exchange. Mr Richard Ward, head of product development at the IPE, says its proposed screen-based gas trading system is being planned in response to the needs of the still evolving UK gas market.

But many of its main features would also be applicable to any wider European system which might emerge if the InterConnector pipeline linking the UK and Continental gas grids is built between Bacton in Norfolk and Zeebrugge in Belgium, and if the European Union begins to liberalise continental gas market.

The IPE has proposed the establishment of a screen-based market that would initially determine prices for "day ahead" gas. "It would give fair and equal access to all participants," with no barriers or volume restrictions to trading.

The system could be available in the UK as early as the end of the year. At present there is an informal spot market through which British Gas and the independent gas shippers and marketing companies trade natural gas. But it is limited to bilateral trading, according to Mr Ward.

Under the proposal prices would be known to all participants, he says, and there would be liquidity in the market, something which is absent from the present informal system.

The need for a spot market in gas is expected to grow as plans to open the sector to full competition by 1998 unfold over the next few years.

Independent shippers now use British Gas' national pipeline system to send gas to customers in the the commercial and industrial markets which have already been opened to competition. But they operate in a relatively relaxed regulatory regime. At present, for example, they only need to balance once a month the gas they draw out of the system with the amount they put in.

But over the next year they will be required to balance daily, with the result that they might have to buy gas if their customers use more than predicted. Likewise shippers who have over-estimated demand will have surplus gas to sell.

Mr Ward said the proposed IPE system could eventually evolve into an on-the-day system once the UK gas market reached the daily balancing stage. Over time it could be expanded to include a futures contract, he said.

Williams Energy Ventures, a US company, says it will compete with the IPE proposal. It wants to establish an alternative screen-based trading system similar to the one that it has been operating in the US since last year. Mr Rusty Brazial, the Williams executive in charge of the project, says only minimal changes would be needed to convert the company's system to the UK.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1753-54	1777-78
Previous	1757.5-60.5	1782-85
High/low	1770	1800/1775
AM Official	1767-68	1791.5-92.0
Kerb close		1781-82
Open int.	194,896	
Total daily turnover	30,422	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1645-55	1660-70
Previous	1645-50	1660-65
High/low		1670/1660
AM Official	1641-2	1655-65
Kerb close		1655-65
Open int.	194,896	
Total daily turnover	30,422	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	601-2	613-14
Previous	602-3	614.5-15.0
High/low	605	620/613
AM Official	605-605.5	616-5-17.5
Kerb close		620-1
Open int.	31,166	
Total daily turnover	3,600	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7735-45	7865-75
Previous	7760-70	7895-900
High/low		7910/7810
AM Official	7730-40	7860-65
Kerb close		7815-20
Open int.	43,411	
Total daily turnover	11,659	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6390-400	6280-90
Previous	6405-25	6290-318
High/low		6335/6280
AM Official	6445-55	6335-40
Kerb close		6290-300
Open int.	18,884	
Total daily turnover	3,216	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1005-6	1027-28
Previous	998-9	1023-24
High/low		1035/1026
AM Official	1008-8.5	1032-33
Kerb close		1027.5-28.0
Open int.	86,836	
Total daily turnover	16,140	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2888-89	2859-60
Previous	2867-70	2845-48
High/low	2909	2880/2858
AM Official	2908-9	2877-78
Kerb close		2860-61
Open int.	236,742	
Total daily turnover	65,665	

■ LME AM Official £/$ rate: 1.5905
LME Closing £/$ rate: 1.5890

Spot:1.5926 3 mths:1.5906 6 mths:1.5859 9 mths:1.5811

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	Low	Open int	Vol
Jun	132.85	-1.30	133.10	132.65	1,132	372
Jul	132.00	-1.70	134.00	131.80	27,886	7,186
Aug	130.75	-1.40	131.75	131.75	718	162
Sep	129.55	-1.20	130.90	129.30	8,841	1,320
Oct	128.20	-1.15	-	-	604	4
Total					47,220	9,143

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	385.40-385.80		
Opening	386.00-386.40		
Morning fix	385.95	243.103	451.178
Afternoon fix	385.05	242.063	449.469
Day's High	386.00-386.40		
Day's Low	385.00-385.40		
Previous close	385.70-381.10		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	5.26	6 months	5.03
2 months	5.20	12 months	4.88
3 months	5.17		

Silver Fix	p/troy oz.	US cts equiv.
Spot	337.70	537.25
3 months	342.40	544.00
6 months	347.55	550.75
1 year	358.50	564.30

Gold Coins	$ price	£ equiv.
Krugerrand	388-391	244-246
Maple Leaf	396.35-398.85	
New Sovereign	90-93	57-59

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol
Jun	386.8	-0.2	387.0	386.0	2,569	1,833
Aug	389.5	-	389.7	388.1	75,288	24,383
Oct	392.6	-	393.0	392.0	8,614	221
Dec	396.1	-	396.2	395.0	33,853	1,851
Feb	399.1	-	-	-	13,631	94
Apr			-	-	8,535	125
Total					170,194	28,862

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	435.7	+0.6	437.0	433.5	11,247	2,982
Oct	437.5	+0.8	439.0	436.0	6,901	389
Jan	438.7	+0.6	-	-	1,762	52
Apr	441.7	+0.6	-	-	727	-
Jul	443.7	+0.6	-	-	205	10
Total					20,842	3,432

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol
Jun	157.30	+0.25	157.30	158.00	204	7
Sep	159.20	+0.25	159.50	157.25	5,133	325
Dec	161.20	+0.25	161.20	160.00	893	7
Total					6,230	339

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol
Jun	531.0	-3.4	-	-	6	17
Jul	532.7	-3.5	537.0	528.0	47,732	22,940
Sep	538.3	-3.4	542.0	534.5	15,780	2,539
Dec	545.7	-3.2	549.0	542.0	16,795	542
Jan	548.0	-3.2	-	-	16	-
Mar	553.1	-3.1	-	-	16,663	112
Total					196,467	26,719

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Jul	18.93	-0.20	19.11	18.87	85,977	35,974
Aug	18.76	-0.20	18.95	18.76	47,521	17,840
Sep	18.60	-0.17	18.74	18.60	33,224	6,151
Oct	18.50	-0.11	18.59	18.46	20,467	1,738
Nov	18.38	-0.12	18.49	18.38	17,547	1,758
Dec	18.27	-0.16	18.42	18.27	24,888	6,042
Total					335,819	78,437

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Jul	17.78	-0.22	17.95	17.71	46,440	15,417
Aug	17.56	-0.13	17.66	17.50	44,195	11,484
Sep	17.33	-0.15	17.44	17.30	17,484	2,325
Oct	17.22	-0.16	17.30	17.20	16,240	554
Nov	17.18	-0.12	17.20	17.18	5,247	198
Dec	17.06	-0.18	17.11	17.06	11,379	134
Total					154,281	30,327

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Jul	48.85	-0.30	49.00	48.40	28,811	12,867
Aug	49.00	-0.41	49.30	48.90	18,258	5,208
Sep	49.85	-0.28	50.00	49.65	11,977	986
Oct	50.80	-0.36	50.86	50.65	5,706	725
Nov	51.50	-0.31	51.79	51.50	5,095	288
Dec	52.30	-0.35	52.62	52.25	19,577	4,020
Total					111,886	26,221

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jun	155.00	+0.75	155.00	153.75	15,401	6,322
Jul	152.00	-0.50	152.50	151.00	28,419	8,102
Aug	152.25	-0.75	153.00	151.50	13,245	3,567
Sep	153.75	-1.00	154.25	153.50	9,785	1,314
Oct	156.25	-1.25	156.50	156.00	4,124	171
Dec	159.50	-1.25	161.00	159.00	9,814	874
Total					88,621	28,559

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Open int	Vol
Jul	1.720	+0.027	1.727	1.690	25,883	11,852
Aug	1.790	+0.026	1.795	1.760	20,204	4,230
Sep	1.810	+0.016	1.815	1.794	18,561	2,692
Oct	1.825	+0.014	1.826	1.816	13,486	1,654
Nov	1.890	+0.006	1.905	1.885	8,399	587
Dec	1.970	+0.013	1.976	1.965	14,355	480
Total					142,559	24,328

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Jul	61.18	-0.82	62.30	61.05	36,678	21,388
Aug	58.55	-0.38	59.20	58.45	17,718	7,216
Sep	56.70	-0.26	56.80	56.55	7,518	2,040
Oct	54.80	-0.16	54.90	54.80	3,347	372
Nov	54.30	+0.04	54.30	54.00	2,075	39
Dec	53.50	-0.21	53.60	53.50	3,241	201
Total					70,585	31,223

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	126.15	-0.80	127.00	126.15	865	53
Sep	107.40	-0.70	107.00	107.00	600	20
Nov	108.25	-0.90	108.50	108.00	3,123	55
Jan	110.25	-0.90	110.50	110.25	1,622	46
Mar	112.25	-0.85	112.25	112.00	532	41
May	114.00	-1.05	-	-	-	-
Total					6,906	215

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	378/6	+5/2	379/0	374/4	39,893	12,473
Sep	385/4	+4/6	388/0	381/2	18,534	5,046
Dec	397/2	+4/6	397/4	393/4	22,232	5,445
Mar	399/6	+3/6	400/0	397/0	2,280	243
May	386/0	+6/0	388/0	381/4	33	4
Jul	358/0	+2/0	359/0	356/0	314	54
Total					82,486	23,620

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	271/0	+5/4	271/4	265/6	115,303	28,060
Sep	278/0	+5/6	278/2	272/6	61,048	8,985
Dec	282/6	+5/0	283/4	277/0	212,882	34,809
Mar	287/4	+4/6	287/4	282/0	22,075	1,282
May	289/4	+4/2	289/6	284/4	4,739	233
Jul	290/6	-4/6	291/0	286/0	11,924	437
Total					424,773	74,316

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	105.50	-0.30	-	-	173	-
Nov	108.40	-0.85	107.25	108.40	690	8
Jan	109.25	-0.50	-	-	324	-
Mar	111.25	-0.65	-	-	116	-
May	112.75	-1.00	-	-	20	-
Total					1,327	8

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	590/6	-0/6	598/4	588/0	53,042	19,148
Aug	595/6	-0/4	603/4	591/4	18,585	2,134
Sep	601/2	-1/2	609/4	598/4	7,030	748
Nov	609/2	-1/0	616/0	603/0	52,928	10,831
Jan	616/2	-1/2	625/0	610/0	4,368	140
Mar	624/0	-0/6	630/4	618/0	1,520	99
Total					145,088	37,327

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	26.51	-0.14	26.90	26.26	25,682	7,921
Aug	26.35	-0.14	26.70	26.16	13,058	2,662
Sep	26.30	-0.17	26.75	26.15	6,283	929
Oct	26.20	-0.21	26.70	26.15	6,211	333
Dec	26.14	-0.23	26.95	26.02	17,825	2,598
Jan	26.10	-0.21	26.35	26.02	1,126	1
Total					74,764	14,458

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	173.1	+0.7	174.2	171.8	35,366	9,065
Aug	175.0	+0.7	176.0	173.7	12,884	1,317
Sep	177.2	+0.6	177.8	175.7	10,096	1,298
Oct	178.5	-	179.7	177.7	9,391	326
Dec	182.9	+0.8	184.0	181.1	18,458	1,836
Jan	184.0	+1.4	185.0	182.5	1,368	1
Total					92,986	13,271

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	85.0	-	-	-	-	-
Mar	107.5	-	-	-	-	-
Apr	112.0	+0.3	113.0	112.0	-	-
May	136.0	-	-	-	503	34
Jun	150.0	-	-	-	4	
Total					507	34

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Open int	Vol
Jun	1918	+18	1925	1910	521	35
Jul	1800	+10	1820	1775	958	222
Aug	1785	+15	1785	1765	1,308	36
Oct	1785	-	1800	1780	576	58
Jan	1745	-5	1755	1745	55	12
Apr	1740	-10	1760	1740	-	-
Total					3,558	400

	Close	Prev
BFI	2082	2018

Wool
This week's Australian sales appeared to show prices holding very firm, but were not a true test of values because of the small offerings. The Eastern market indicator showed a six cents fall over the week to 823 cents a kg. There will be a more reliable pointer to prices next week, when a much larger weight of wool will be auctioned. There is a distinct lack of confidence in current prices, certainly among users in the western world, because they are not justified by the level of consumer demand for the fibre. On the other hand, Australian wool production is still falling significantly and there are steady disposals from the stockpile, which is expected to be reduced below three million bales by the end of the month. The Bradford tops market is quiet following the return from the holiday break.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	930	+5	930	922	22,816	5,552
Sep	949	+6	950	942	23,068	5,797
Dec	973	+4	975	967	25,143	3,557
Mar	997	+3	998	990	27,586	415
May	1010	-	1010	1005	9,992	36
Jul	1025	+2	1025	1021	2,491	17
Total					116,916	15,487

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	1295	+1	1300	1295	19,886	3,250
Sep	1324	-	1329	1315	28,186	3,352
Dec	1359	-1	1364	1354	14,626	861
Mar	1390	-5	1393	1385	8,332	75
May	1410	-5	1416	1416	5,528	14
Jul	1430	-5	-	-	2,959	127
Total					80,253	7,679

■ COCOA (ICCO) (SDR's/tonne)

Jun 7	Price	Prev. day
Daily	904.01	901.25

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	2752	-41	2790	2741	14,886	2,132
Sep	2691	-22	2731	2678	14,656	2,649
Nov	2690	-16	2715	2670	2,738	234
Jan	2683	-42	2690	2668	631	209
Mar	2673	-42	2680	2670	484	24
May	2670	-43	-	-	-	-
Total					33,487	5,248

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	151.70	+1.55	152.50	148.50	15,864	7,253
Sep	153.85	+1.20	154.50	151.25	11,754	3,875
Dec	155.45	+0.20	156.20	154.00	5,090	493
Mar	157.85	+0.35	158.25	156.00	2,489	224
May	159.00	+0.20	159.00	159.00	205	17
Jul	160.00	+0.20	159.75	159.75	32	12
Total					35,681	11,708

■ COFFEE (ICO) (US cents/pound)

Jun 7	Price	Prev. day
Comp. daily	143.58	147.95
15 day average	149.30	150.20

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	13.27	-	-	-	2,360	-
Oct	10.43	-	-	-	-	-
Jan	13.25	-	-	-	-	-
Feb	10.10	-	-	-	2,000	-
Total					4,360	-

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Aug	359.3	+3.8	361.3	354.8	10,873	1,711
Oct	301.0	+1.0	303.0	298.0	5,494	687
Dec	285.8	+1.3	285.8	283.0	2,658	44
Mar	282.0	+1.2	282.0	280.0	2,687	37
May	285.0	+2.0	-	-	427	-
Aug	286.8	+1.8	287.4	286.8	198	1
Total					22,572	2,586

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	11.88	+0.30	12.15	11.65	43,347	6,114
Oct	10.12	+0.03	10.24	10.02	39,906	2,628
Mar	9.89	+0.04	10.00	9.82	22,896	925
May	9.95	+0.06	10.07	9.87	7,699	300
Jul	9.90	+0.03	9.91	9.88	8,754	84
Oct	9.75	+0.05	9.70	9.70	2,582	22
Total					129,850	10,159

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	114.00	+2.35	114.85	111.65	14,620	2,977
Oct	90.10	+1.09	92.00	88.50	8,751	2,183
Dec	83.80	+0.24	84.00	81.80	30,032	5,620
Mar	84.15	+0.25	84.70	83.20	10,535	666
May	84.00	-0.40	84.80	83.85	3,885	84
Jul	84.40	-0.15	84.80	84.20	1,880	14
Total					71,371	11,664

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	100.15	+0.15	101.50	98.90	12,457	4,513
Sep	104.55	+0.25	105.70	104.00	10,128	2,856
Nov	104.70	-0.05	106.00	105.00	2,182	248
Jan	106.80	-0.85	107.90	107.00	2,887	82
Mar	109.05	-0.75	109.85	109.85	829	38
May	112.05	-0.74	-	-	429	-
Total					28,702	7,715

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Jun 8	Jun 7	month ago	year ago
2285.3	2301.1	2311.5	1998.8

■ CRB Futures (Base: 1967=100)

Jun 7	Jun 6	month ago	year ago
233.79	234.06	233.16	231.21

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jun	64.350	+0.800	64.425	63.575	10,587	3,108
Aug	62.730	+0.825	62.925	61.900	23,360	6,725
Oct	63.700	+0.450	63.750	63.200	13,389	1,572
Dec	64.400	+0.275	64.500	64.050	5,548	429
Feb	64.775	+0.200	64.900	64.650	3,525	130
Apr	65.625	+0.250	65.650	65.400	1,808	108
Total					58,440	12,070

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jun	43.875	+0.125	44.075	43.450	2,873	1,542
Aug	44.175	-0.200	44.500	43.900	7,808	4,436
Oct	41.300	-0.225	41.775	41.250	6,559	1,816
Dec	42.500	-0.150	42.650	42.400	5,375	759
Feb	43.400	-0.200	43.800	43.400	2,317	293
Apr	43.050	-0.050	43.100	43.050	1,003	144
Total					25,476	8,086

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	36.725	+0.275	38.000	36.450	4,407	1,339
Aug	35.800	+0.375	36.975	35.550	3,072	763
Feb	49.800	+0.050	50.675	49.800	284	48
Mar	48.700	-	48.700	-	35	4
May	50.200	+0.650	50.550	50.200	7	3
Jul	51.600	+0.100	51.600	-		
Total					7,816	2,155

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Sep	Dec	Sep	Dec
1700	140	170	59	97
1750	112	145	80	121
1800	88	123	105	147
■ COPPER (Grade A) LME	Sep	Dec	Sep	Dec
2700	184	154	28	78
2800	117	104	60	125
2900	68	67	110	185
■ COFFEE LCE	Jul	Sep	Jul	Sep
3050	10	113	308	472
3100	8	104	354	513
3150	5	35	402	564
■ COCOA LCE	Sep	Dec	Sep	Dec
950	42	76	37	53
975	32	64	58	66
1000	24	53	75	80
■ BRENT CRUDE IPE	Jul	Oct	Jul	Oct
1750	25	51	-	78
1800	4	35	30	118
1850	-	22	77	149

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Jul)

		+or-
Dubai	$16.75-6.77z	+0.015
Brent Blend (dated)	$17.81-7.94	-0.135
Brent Blend (Jul)	$17.79-7.82z	-0.155
W.T.I. (1pm est)	$18.96-8.98z	-0.160

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$200-202	
Gas Oil	$155-156	
Heavy Fuel Oil	$94-96	
Naphtha	$187-189	
Jet fuel	$167-168	
Diesel	$155-156	

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

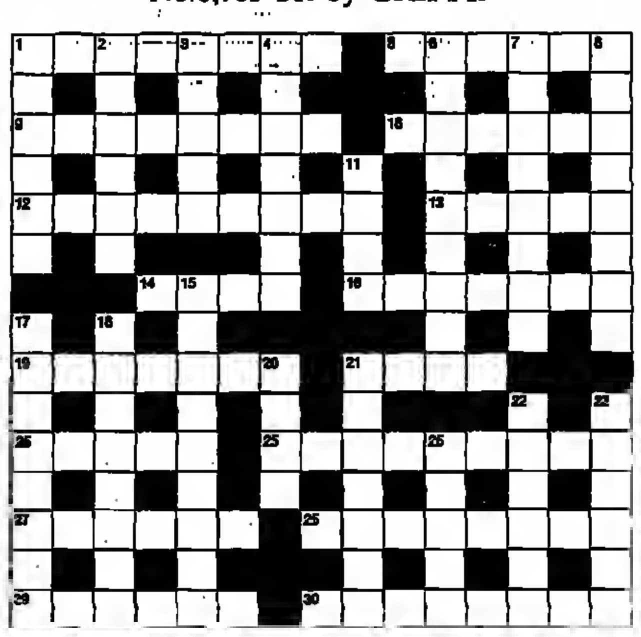
Gold (per troy oz)♣	$385.80	-0.30
Silver (per troy oz)♣	531.00c	-5.50
Platinum (per troy oz.)	$435.75	+2.75
Palladium (per troy oz.)	$157.00	+0.75
Copper (US prod.)	Unq.	
Lead (US prod.)	41.75c	
Tin (Kuala Lumpur)	15.22m	+0.19
Tin (New York)	307.50c	
Cattle (live weight)†	124.29p	+1.22*
Sheep (live weight)†♠	113.58p	-4.65*
Pigs (live weight)†	84.54p	+0.28*
Lon. day sugar (raw)	$348.0	-5.5
Lon. day sugar (wte)	$403.5	+0.5
Tate & Lyle export	£333.0	-2.0
Barley (Eng. feed)	Unq.	
Maize (US No3 Yellow)	£147.0	
Wheat (US Dark North)	Unq.	
Rubber (Jul)♥	102.00p	-1.00
Rubber (Aug)♥	102.00p	-1.00
Rubber (KL RSS No1)	382.5m	-5.5
Coconut Oil (Phil)§	$655.0y	+5.0
Palm Oil (Malay.)§	$640.0w	
Copra (Phil)§	419.0u	+6.0
Soyabeans (US)	161.0w	+1.0
Cotton Outlook'A' index	108.15	+1.00
Wooltops (64s Super)	518p	-6

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. u May/Jun w Jun. z Jul. y Jun/Jul. q May ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices). * Change on week † Prices are for previous day.

JOTTER PAD

CROSSWORD

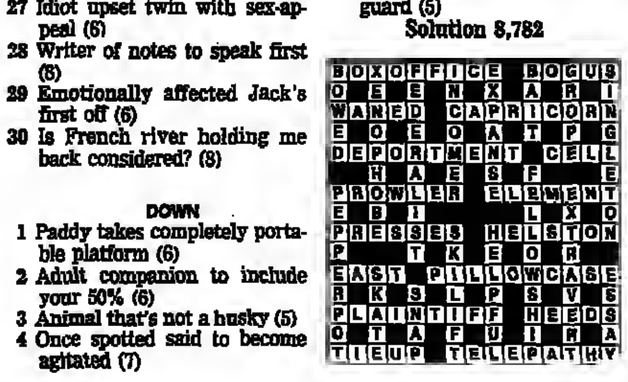
No.8,783 Set by GRIFFIN



ACROSS
1 Father gets speed allowed leaflet (8)
5 Filter last half drop of water (6)
9 Education of real city slicker (8)
10 Second year students grabbing favourite ball (6)
12 Eagerly bring in new style (9)
13 Dread losing time slip (5)
14 Walked round ring road after a sound tea (4)
16 Devon banker shuts up, accepting cost (7)
19 Frightened of Capone having guns? (7)
21 Boy taking midnight air (4)
24 Presses on in pairs, without father (5)
25 Turn end part around for sponsor (9)
27 Idiot upset twin with sex-appeal (6)
28 Writer of notes to speak first (8)
29 Emotionally affected Jack's first off (6)
30 Is French river holding me back considered? (8)

DOWN
1 Paddy takes completely portable platform (6)
2 Adult companion to include your 50% (6)
3 Animal that's not a husky (5)
4 Once spotted said to become agitated (7)
6 Note her staggering up in it at that point (9)
7 Everything you heard on telephone is fascinating! (8)
8 People with authority, but not to sign? (8)
11 Engineers close first farm building (4)
15 Which makes a sentence shorter? (9)
17 Ranch had a nice cook (8)
18 Got a vest specially designed for dances (8)
20 Likes temporary accommodation? (4)
21 Sorry thoroughfare is surrounded by cruel people (7)
22 Lie about introducing smell of gas (6)
23 Said to have tasted mixture (6)
26 Saw a Kenyan hiding on guard (5)

Solution 8,782



INTERNATIONAL CAPITAL MARKETS

US sell-off extends to European centres

By Richard Lapper in London and Lisa Bransten in New York

The sell-off in the US bond markets on Wednesday extended to Europe yesterday, with prices falling in most markets.

The price fall was sharpest in the UK, where the September 10-year gilt future fell by nearly a point to close at 107⅜, down ⅞. The yield spread of gilts over bunds widened to 147 basis points, from 133 points last week.

Gilts traders and analysts said Wednesday's comments by Mr Alan Greenspan, the chairman of the Federal Reserve, that he did not expect the US to enter recession, had heavily influenced sentiment.

Early in the day, the reports of Mr Greenspan's comments overshadowed the impact of a 0.2 per cent fall in April in industrial output, which might otherwise have been seen as positive by the market.

The market also reacted negatively to data from the Confederation of British Industry showing more expectations of price rises and modest growth in retail sales.

Mr Michael Burke, senior economist at Citibank, said developments simply confirmed the increasing influence of international developments on the gilts market, which was moving closely in line with Treasuries.

Other analysts said that following its recent rally – the most sustained upward movement in the market for 18 months – a correction was due, and pointed to profit-taking by some traders.

Mr Chris Anthony, gilts analyst at ABN Amro Hoare Govett, said that many participants in the markets were heavily exposed at present price levels. Positive economic data indicating a further shift downwards in inflationary expectations would be necessary to trigger any further price rises, he added.

In Germany bunds fell marginally, with the September 10-year future closing down 0.30 at 95.12.

Moves by both the Belgian and Dutch monetary authorities to cut short-term interest rates by 25 basis points led some traders to believe that the same might be in prospect in Germany.

GOVERNMENT BONDS

"The market has only one thing on its mind – the possibility of a rate cut", said Mr Burke.

In France, the 10-year September Notionnel future settled at 116.06, down 0.10, with developments across the Atlantic again a big influence on the market.

Both the Italian and Spanish markets also lost ground, with September 10-year futures down by 0.07 and 0.10 respectively.

■ US bond prices edged lower in volatile trading yesterday morning as traders re-evaluated their assumptions that the Federal Reserve would lower interest rates at the July meeting of its Open Market Committee.

By midday, the benchmark 30-year Treasury was ⅛ lower at 113¾, yielding 6.561 per cent and the two-year note was down ⅛ at 100⅜, to yield 5.818 per cent.

Last week – after the release of surprisingly weak employment figures – the yield on bonds with maturities of less than 10 years sank below the federal funds target rate of 6 per cent, indicating that the market expected the Fed to lower interest rates in the near term.

On Wednesday afternoon, however, Mr Alan Greenspan, chairman of the Fed, jolted the market by saying he did not expect a recession, which the market interpreted to mean that the FOMC would probably not ease monetary policy at its July meeting.

Yesterday, the market continued to fall, especially at the short end, as traders backed away from their bets that interest rates would fall, and the yields on all but the two-year and three-year notes climbed back over 6 per cent.

The weakness of the market at the short end of the maturity spectrum sent the yield spread between the two-year note and the long-bond much flatter. At midday, the spread between yields of these securities was 74 basis points, against 80 points late on Wednesday.

The market paid very little attention to weekly jobs figures that showed the number of people filing initial claims for unemployment benefits dropped by 7,000 last week.

Instead, most traders turned their attention to today's release of the producer price index for signs on inflation.

Structured finance for Russian paper mill

By Conner Middelmann

A group of western institutions has recently participated in structuring a financing package for AO Volga, Russia's largest paper mill.

Croesus Capital Management, a US-based emerging market investment fund which invests about $35m to $40m in the former Soviet Union, had obtained a stake in the company through the government sale of privatisation vouchers.

Late in 1994, a number of western investors, including Herlitz, a leading German paper manufacturer, expressed strong interest in participating in the restructuring of the company, says Mr Jack Barbanel, managing director of Croesus, which reduced its 9 per cent stake in Volga to 3 per cent as a result.

"This was a very interesting situation, where you had a multinational effort at getting a Russian company up and running in what is probably the largest non oil and gas-related financing in Russia," Mr Barbanel said.

The total financing package for Volga amounted to $108.5m, of which $33.5m was common equity owned by Herlitz, the World Bank's International Finance Corporation, CS First Boston's Ice Breaker funds and Croesus.

A further $75m term loan, sponsored by the IFC, was granted to the company by a consortium of European banks including Dresdner Bank, Westdeutsche Landesbank, Berliner Bank, DB Finance (Belgium) and Austria's Raiffeisen Zentralbank.

● American depositary receipts worth more than $25m for Avtovazbank will hit the market in September, according to bank president Pyotr Nakhmanovich, Reuter reports.

Italian shipbuilder raises L2,000bn

By Antonia Sharpe

Fincantieri, Italy's state-controlled shipbuilder, yesterday signed a syndicated loan for just over L2,000bn, the proceeds of which will finance the construction of four cruise liners.

Citibank arranged the deal, in which 30 banks participated. The bank said the loan, one of the largest financings denominated in lira, showed that the syndicated loans market was willing once again to lend to Italian state credits, provided they were well managed.

Italy's reputation in the market has recovered from a low point three years ago when international banks were hit by the collapse of Federconsorzi, the farm services group, and the liquidation of Efim, a state holding group.

Citibank said the loan was equal to 80 per cent of the aggregate value of the four construction contracts and that L1,400bn was the maximum which could be outstanding at any time.

Fincantieri, which is a world leader in building cruise ships, is paying a margin of 80 basis points over the London interbank offered rate (Libor) and a commitment fee of ⅜ per cent.

The ships will be built at Fincantieri's yard at Monfalcone, near Trieste. The first ship is already under construction and is due to be delivered in June next year.

The scheduled delivery dates of the next three ships are September 1996, May 1997 and May 1998, when the loan will mature.

The first two ships are being built for the Carnival cruise group of the US, which operates mainly in the Caribbean. The other two are being built for P&O, the UK shipping and property group.

Fincantieri has also won other contracts in recent months. In April, Disney Cruise Lines, a subsidiary of the Walt Disney Company, ordered two cruise liners and Grimaldi, the Italian shipowner, ordered five ships for a total of about 1,600bn.

SBC set to sell Dutch offshoot to Rabobank

By Antonia Sharpe

Swiss Bank Corporation is in talks with Rabobank regarding the sale of SBC's Dutch subsidiary to the Dutch co-operative bank.

SBC declined to say how much it would get from selling SBC Nederlans NV, which is primarily active in sales and trading in Dutch securities and has about 40 employees.

However, the price could be disclosed after the agreement is signed. This is expected to happen at the end of this month.

Swiss Bank said the sale had been under review for some time and was not linked to its planned takeover of the investment banking business of S.G. Warburg. However, Warburg has a corporate finance operation based in Amsterdam.

SBC said it remained committed to the Dutch capital markets but the recent liberalisation meant that it could now conduct its business from London. The Amsterdam Stock Exchange has relaxed regulations obliging members to have an office in the country.

Rabobank said the acquisition of SBC's Dutch unit was part of its strategy to strengthen and expand its activities as a securities house.

UK utility in £200m 30-year offering

By Antonia Sharpe

Eastern Group, one of the UK's largest electricity companies, yesterday took advantage of the low level of UK government bond yields to raise £200m through an issue of 30-year eurobonds.

INTERNATIONAL BONDS

Eastern is the fourth company this week to borrow fixed-rate funds, following NTT, Toyota and Xerox, which raised dollars.

Syndicate managers said that although bond yields had riseo over the past few days, they were still close to the historic lows reached in 1993.

"Borrowers are getting a second bite at the cherry," said an official at BZW, which arranged the deal for Eastern.

The offering was applauded as a good deal and fairly priced at 60 basis points over the 8¾ per cent gilt due 2017 the yield on which was 7.83 per cent at the launch. It later widened to 7.93 per cent, in line with a weaker gilts market.

The jury was out on the likely reception for the planned £75m offering for Independent Newspapers. Bankers Trust, which is arranging the deal, is believed to have approached several eurobond bouses which are strong in eurosterling to get sponsors and advice on pricing. It is not clear if the bonds will be "peppable" because the company is Irish.

Xerox's $200m five-year offering, which saw good demand, showed that single A credits could access the eurobond market. However, Xerox is well-known and paid a fair spread of 50 basis points over Treasuries. Other single A credits which are not familiar to continental European retail investors might not get the same reception.

IFC's smooth debut in the D-Mark sector earlier this week led to talk that US agencies were looking at raising five-year D-Marks. Elsewhere, demand for a seven-year deal from National Power of the Philippines allowed it to be raised to $150m from $100m.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Xerox Corp.	200	6.50	99.69R	Jun.2000	0.325R	+50(6¼%-00)	Merrill Lynch International
National Power Corp.	150	9.00#	99.288R	Jul.2002	1.00R	+305(7½%-02)	JP Morgan Securities
STERLING							
Eastern Group(s)	200	8.50	98.855R	Mar.2025	0.625R	+60(8¾%-17)	Barclays de Zoete Wedd
D-MARKS							
LW Rentenbank(l)	250	5.00	99.23	Jul.1999	1.75	-	DG Bank
Exe Finance Co.(l)‡	125	(a)	100.25	Aug.1999	0.25	-	JP Morgan
City of Copenhagen	100	6.00	99.70R	Jul.2000	0.25R	+34(6½%-00)	ABN Amro Hoare Govett
FRENCH FRANCS							
Compagnie Générale des Eaux	1bn	7.50	98.64R	Jul.2005	0.425R	+35(7½%-05)	Deutsche Bank France
SWISS FRANCS							
Lion Corp.(b)+Φ	100	1.375	100.00	Jul.1999	1.625	-	Credit Suisse
GUILDERS							
Dresdner Finance	300	6.625	99.73R	Jul.2003	0.30R	+22(6½%-03)	ABN Amro Hoare Govett
LUXEMBOURG FRANCS							
Banque Indosuez	2bn	6.75	102.20	Jul.2001	1.875	-	BCEE

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. +Unlisted. ΦWith equity warrants. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor +42bp. b) Fixing: 14/6/95. l) Long 1st coupon. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		7.500	07/05	90.8500	-0.930	8.89	8.95	9.68
Austria		7.000	05/05	100.6500	-0.160	6.90	6.96	7.65
Belgium		8.500	03/05	95.2900	-0.240	7.19	7.31	7.87
Canada*		8.000	12/04	106.2500	-0.750	8.04	8.07	8.58
Denmark		7.000	12/04	92.8800	-0.320	8.09	8.11	6.64
France	BTAN	7.750	04/00	103.3800	-1.370	6.91	6.87	7.38
	OAT	7.500	04/05	100.8700	-0.240	7.35	7.41	7.79
Germany Bund		8.875	05/05	102.1200	-0.280	8.57	8.81	7.04
Ireland		8.250	10/04	86.9000	-0.450	6.31	8.32	8.83
Italy		8.500	01/05	86.6700	-0.060	11.87†	11.86	12.80
Japan	No 119	4.800	06/99	110.0810	-0.420	2.09	2.06	2.61
	No 174	4.600	09/04	112.7040	-0.460	2.67	2.80	3.46
Netherlands		7.000	06/05	102.0400	-0.340	6.71	6.75	7.12
Portugal		11.875	02/05	99.8600	-0.150	11.87	11.93	12.27
Spain		10.000	02/05	92.2300	-0.080	11.32	11.45	11.99
Sweden		6.000	02/05	73.8130	-0.820	10.42	10.52	11.23
UK Gilts		8.000	08/99	94-17	-15/32	7.56	7.52	8.31
		8.500	12/05	104-11	-26/32	7.88	7.90	8.43
		9.000	10/08	108-21	-31/32	7.93	7.87	8.42
US Treasury*		6.500	05/05	101-31	-31/32	6.23	6.23	7.07
		7.625	02/25	113-24	-26/32	6.57	6.62	7.33
ECU (French Govt)		8.000	04/04	89.6600	-0.190	7.64	7.71	8.18

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime		Treasury Bills and Bond Yields			
Prime rate	9	One month	-	Two year	5.82
Broker loan rate	6½	Two month	-	Three year	5.90
Fed.funds	6	Three month	5.78	Five year	6.01
Fed.funds at intervention	-	Six month	5.79	10-year	6.21
		One year	5.76	30-year	6.55

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	116.40	116.46	-0.12	116.56	116.30	152,189	90,372
Sep	116.00	116.06	-0.10	116.14	115.90	34,113	74,219
Dec	115.60	115.86	-0.10	115.92	115.60	177	2,228

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jul	Calls Sep	Calls Dec	Puts Jul	Puts Sep	Puts Dec
114	-	2.61	-	0.08	0.57	-
115	-	1.90	-	0.24	0.86	1.32
116	0.64	1.36	1.70	0.67	1.18	1.84
117	0.27	0.93	-	-	-	-
118	0.10	0.50	-	-	-	-

Est. vol. total, Calls 21,867 Puts 14,769. Previous day's open int., Calls 147,057 Puts 130,496.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.23	95.12	-0.30	95.36	95.05	142559	171263
Dec	94.84	94.63	-0.31	94.84	94.67	1120	2582

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
9500	0.51	0.84	1.02	1.16	0.39	0.72	0.90	1.53
9550	0.26	0.59	0.76	0.95	0.64	0.97	1.16	1.82
9600	0.14	0.41	0.59	0.78	1.02	1.29	1.47	2.15

Est. vol. total, Calls 16567 Puts 15601. Previous day's open int., Calls 146761 Puts 112890

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	100.20	100.20	-0.07	100.53	99.90	34706	39730
Dec		99.80	-0.07			0	0

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
10000	2.02	2.90	1.82	3.10
10050	1.77	2.67	2.07	3.37
10100	1.53	2.45	2.33	3.65

Est. vol. total, Calls 1743 Puts 1696. Previous day's open int., Calls 24245 Puts 15316

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	86.86	86.68	-0.10	86.86	86.40	61,760	32,174
Sep	86.60	86.76	+0.04	86.86	86.55	2,636	6,634

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	108-11	107-29	-0-26	108-25	107-24	1841	18126
Sep	107-29	107-13	-0-26	108-11	107-05	97993	106264

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
107	0-63	1-32	1-52	2-17	0-37	1-06	1-26	2-23
108	0-32	1-00	1-20	1-51	1-06	1-38	1-58	2-57
109	0-14	0-40	0-59	1-26	1-52	2-14	2-33	3-30

Est. vol. total, Calls 4622 Puts 3728. Previous day's open int. Calls 31797 Puts 31566

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	86.74	86.68	-0.20	86.76	86.56	2,782	7,369
Sep	86.54	86.46	-0.22	86.56	86.42	1,016	2,290

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	114-17	114-13	-0-13	114-23	114-08	14,625	117,119
Sep	114-11	114-02	-0-12	114-12	113-23	355,142	286,326
Dec	113-23	113-20	-0-08	113-29	113-13	1,150	18,071

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	119.11			119.22	118.90	3475	0
Dec	118.22			119.22	118.22	25	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Thu Jun 8	Day's change %	Wed Jun 7	Accrued interest	xd adj. ytd
1 Up to 5 years (23)	122.19	-0.31	122.73	2.27	4.44
2 5-15 years (21)	146.02	-0.72	147.06	1.65	5.70
3 Over 15 years (9)	164.24	-1.07	166.11	2.00	6.06
4 Irredeemables (6)	186.53	-1.50	181.40	1.30	6.38
5 All stocks (59)	143.15	-0.66	143.15	2.06	5.38
Index-linked					
6 Up to 5 years (2)	195.66	-0.17	196.03	0.96	2.57
7 Over 5 years (11)	186.51	-0.48	187.41	1.37	1.73
8 All stocks (13)	186.58	-0.45	187.43	1.33	1.81

Yields	Low coupon Jun 8	Jun 7	Yr. ago	Medium coupon Jun 8	Jun 7	Yr. ago	High coupon Jun 8	Jun 7	Yr. ago
5 yrs	7.66	7.50	8.14	7.96	7.62	8.36	7.71	7.57	8.47
15 yrs	7.93	7.83	8.38	7.95	7.83	8.53	8.07	7.97	8.61
20 yrs	7.94	7.83	8.35	7.96	7.85	8.53	8.05	7.95	8.64
Irred.†	7.89	7.86	8.46						

Index-linked real yields	Inflation 5% Jun 8	Jun 7	Yr. ago	Inflation 10% Jun 8	Jun 7	Yr. ago
Up to 5 yrs	3.15	3.03	3.75	1.64	1.52	2.79
Over 5 yrs	3.57	3.54	3.78	3.39	3.35	3.61

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Jun 8	Jun 7	Jun 6	Jun 5	Jun 2	Yr ago	High*	Low*
Govt. Secs. (UK)	94.36	95.00	95.20	95.51	95.24	92.78	95.51	90.22
Fixed Interest	114.13	114.65	114.64	114.60	113.96	110.55	114.66	108.77

* for 1995. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	Jun 7	Jun 6	Jun 5	Jun 2	Jun 1
Gilt Edged bargains	82.2	90.7	152.8	87.5	88.9
5-day average	100.4	105.8	109.8	100.0	128.1

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on June 8

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg.	Yield
Abbey Natl Treasury 5 97	1000	98¼	98⅝	-⅛	6.13
Abbey Natl Treasury 6½ 03	1000	98¼	98½	-⅛	6.79
African Dev Bk 7¾ 23	500	100⅝	101⅛	-½	7.32
Alberta Province 7⅞ 98	1000	104	104¼	-⅛	6.27
Austria 8½ 00	400	108⅝	108	-⅛	6.36
Baden-Wuertt L-Fin 8⅛ 00	1000	106¾	107	-¼	6.38
Bank Ned Gemeenten 7 99	1000	103	103¼	-⅛	6.18
Bayer Vereinsbk 8⅛ 00	500	106⅝	106⅞	-⅛	6.41
Belgium 5½ 03	1000	92⅞	92⅝	-⅛	6.71
BFCE 7¼ 97	150	102½	102⅞	-½	6.16
British Columbia 7¾ 02	500	106⅜	106⅝	-⅛	6.59
British Gas 0 21	*1500*	*14⅛*	*14½*	*-⅛*	*7.69*
Canada 6½ 97	2000	100¾	100⅞	-⅛	6.10
Cheung Kong Fin 5½ 98	500	93⅞	94⅝	-⅛	7.65
China 6½ 04	1000	94	94⅞	-⅛	7.59
Council Europe 8 98	100	102	102¼	-¼	6.13
Credit Foncier 9½ 98	300	110¼	110½	-½	6.30
Denmark 5¾ 98	1000	99¼	99½	-½	6.04
East Japan Railway 6⅝ 04	600	99⅜	99⅝	-¼	6.72
ECSC 8¼ 96	193	102⅞	103¼	-¼	6.12
EEC 9¼ 96	100	102	102¼	-¼	6.18
EIB 7¾ 98	250	101¾	102	-⅛	6.02
EIB 9¼ 97	1000	106¾	107	-½	6.15
Elec de France 8 98	200	106⅝	107	-⅛	6.30
Ex-Im Bank Japan 8 02	500	108¼	108⅝	-⅛	6.49
Export Dev Corp 9½ 98	150	108¾	109¼	-⅛	6.29
Federal Natl Mort 7.40 04	1500	105	106⅛	-⅛	6.82
Finland 6¾ 97	3000	101⅛	101⅝	-½	6.23
Ford Motor Credit 6¼ 98	1500	99¾	100⅛	-½	6.45
Gen Elec Capital 9⅛ 96	300	103	103⅛	-¼	6.19
Ind Bk Japan Fin 7⅞ 97	200	102¼	102¾	-⅛	6.53
Inter Amer Dev 7⅞ 98	200	101¾	102	-⅛	6.10
Intl Finance 5¼ 98	500	97½	97⅞	-½	6.04
Italy 8⅞ 23	3500	90	90⅛	-⅛	7.90
Japan Dev Bk 8⅞ 01	500	108⅞	109¼	-1	6.45
Korea Elec Power 6⅜ 03	1350	95	95⅝	-¼	7.13
LTCB Fin 8 97	200	102⅞	102½	-¼	6.52
Matsushita Elec 7¼ 02	1000	104	104¼	-⅛	6.65
Norway 7¼ 97	1000	102⅞	102⅞	-⅛	5.99
Ontario 7⅜ 03	3000	103¾	104	-¼	6.85
Oster Kontrollbank 8½ 01	200	110	110¼	-⅛	6.36
Portugal 5¾ 03	1000	94⅞	94⅝	-⅝	6.75
Quebec Hydro 9¾ 98	150	109	109⅜	-⅝	6.61
Quebec Prov 9 98	200	106⅛	106½	-⅝	6.54
Sainsbury 9⅛ 96	150	103⅜	103⅝	-¼	6.32
SAS 10 99	200	110⅛	110⅝	-⅛	6.81
SNCF 9½ 98	150	109	109⅜	-⅛	6.22
Spain 6½ 98	1500	100⅝	100⅞	-⅛	6.32
State Bk NSW 8½ 98	200	102¼	102⅜	-¼	6.23
Sweden 6½ 03	2000	99⅞	99⅝	-⅛	6.71
Tokyo Elec Power 6⅛ 03	1000	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or –	1995 High	1995 Low
Shorts" (Lives up to Five Years)							
Exch 10¼pc 1995		10.20	6.27	100⅛	-----	101⅞	100⅛
Treas 12¾pc 1995‡‡		12.42	6.45	102⅝	-⅛	104⅞	102⅝
14pc 1996		13.39	6.52	104⅜	-⅛	106⅞	104⅜
15¼pc 1996‡‡		14.18	6.51	107⅛	-⅛	109⅝	107½
Exch 13¼pc 1996‡‡		12.51	6.57	100⅝	-⅛	107¼	100⅝
Conversion 10pc 1996		8.60	6.84	104⅛	-⅛	104⅛	103⅛
Treas 13¼pc 1997‡‡		12.11	7.01	109⅛	-⅛	109⅛	100⅛
Exch 10½pc 1997		9.96	7.02	100⅛	-⅛	105⅛	104⅛
Treas Cnv 7pc 1997‡‡		7.00	7.05	100	-¼	100¼	97⅛
Treas 8¾pc 1997‡‡		8.48	7.19	103⅛	-⅛	103⅛	100⅛
Exch 15pc 1997		12.85	7.25	116⅛	-⅛	117⅛	114⅛
9¾pc 1998		9.23	7.32	105⅛	-⅛	106⅛	102⅛
Treas 7¼pc 1998‡‡		7.27	7.33	99⅛	-⅛	100¼	95⅛
Treas 6¾pc 1995-98‡‡		6.86	7.37	98⅛	-⅛	99⅛	94⅛
Treas 15½pc '98‡‡		12.58	7.38	123⅛	-⅛	124⅛	120⅛
Exch 12pc 1998		10.58	7.48	113⅛	-⅛	114⅛	109⅛
Treas 9½pc 1999‡‡		8.85	7.51	108⅛xd	-⅛	109⅛	107⅛
Treas Flg Rate 1999		-	-	100⅛xd	-----	100⅛	99⅛
Exch 12¼pc 1999		10.63	7.54	115⅛	-⅛	116⅛	111⅛
Treas 10½pc 1999		9.56	7.55	109⅛	-⅛	110⅛	105⅛
Treas 6pc 1999 ‡‡		6.35	7.55	94⅛	-½	95¼	89⅛
Conversion 10¼pc 1999		9.34	7.60	109⅛	-⅛	110⅛	100⅛
Conv 9pc 2000‡‡		0.53	7.59	105⅛	-⅛	106⅛	100⅛
Five to Fifteen Years							
Treas 13pc 2000		10.64	7.66	122⅛xd	-⅛	123⅛	117
8pc 2000‡‡		7.86	7.60	101⅛	-⅛	102⅛	95⅛
10pc 2001		8.07	7.73	110⅛	-⅛	111⅛	104⅛
14pc 1998-1		11.98	7.43	117⅛	-⅛	117⅛	114⅛
7pc 2001 ‡‡		7.29	7.76	96⅛	-⅛	97⅛	90⅛
9¾pc 2002		8.83	7.83	110⅛	-⅛	111⅛	103⅛
8pc 2003‡‡		7.93	7.88	100⅛xd	-⅛	101⅛	94⅛
10pc 2003		0.88	7.88	112⅛	-⅛	113⅛	105⅛
Treas 11½pc 2001-4		9.85	7.82	116⅛	-⅛	117⅛	110⅛
Funding 3½pc 1999-4		4.82	7.98	72⅛xd	-1⅛	80⅛	72⅛
Conversion 9½pc 2004		8.63	7.94	110⅛	-⅛	111⅛	103⅛
Treas 6¾pc 2004‡‡		7.31	7.92	[illegible]	[illegible]	[illegible]	[illegible]
Conv 9½pc 2005		8.59	7.93	[illegible]	[illegible]	[illegible]	[illegible]
Treas 12½pc 2003-5		8.81	7.97	[illegible]	[illegible]	[illegible]	[illegible]
Treas 8½pc 2005‡‡		8.14	7.92	[illegible]	[illegible]	[illegible]	[illegible]
7¾pc 2006‡‡		7.86	7.96	[illegible]	[illegible]	[illegible]	[illegible]
8pc 2002-6‡‡		8.00	7.92	[illegible]	[illegible]	[illegible]	[illegible]
Treas 11¾pc 2003-7		8.88	7.96	[illegible]	[illegible]	[illegible]	[illegible]
Treas 8½pc 2007 ‡‡		8.14	7.92	[illegible]	[illegible]	[illegible]	[illegible]
13½pc 2004-8		18.04	7.97	[illegible]	[illegible]	[illegible]	[illegible]
Treas 9pc 2008 ‡‡		8.28	7.92	[illegible]	[illegible]	[illegible]	[illegible]
Treas 8pc 2009		7.98	7.93	[illegible]	[illegible]	[illegible]	[illegible]
Over Fifteen Years							
Treas 8 1/4pc 2010		7.38	7.95	[illegible]	[illegible]	[illegible]	[illegible]
Conv 9pc Ln 2011 ‡‡		8.24	7.98	109[illegible]	[illegible]	[illegible]	[illegible]
Treas 9pc 2012‡‡		8.22	7.97	[illegible]	[illegible]	[illegible]	[illegible]
Treas 5½pc 2008-12‡‡		7.87	7.87	[illegible]	[illegible]	[illegible]	[illegible]
Treas 8pc 2013‡‡		7.97	7.94	[illegible]	[illegible]	[illegible]	[illegible]
7¾pc 2012-15‡‡		7.87	7.95	[illegible]	[illegible]	[illegible]	[illegible]
8pc 2015		7.92	7.89	[illegible]	[illegible]	[illegible]	[illegible]
Treas 8¾pc 2017‡‡		8.07	7.93	[illegible]	[illegible]	[illegible]	[illegible]
Exch 12pc 2013-17		8.72	8.04	137[illegible]	[illegible]	[illegible]	[illegible]
Undated							
Consols 4pc		8.11	-	[illegible]	[illegible]	[illegible]	[illegible]
War Loan 3½pc‡‡		7.91	-	[illegible]	[illegible]	[illegible]	[illegible]
Conv 3½pc '61 Aft.		5.77	-	[illegible]	[illegible]	[illegible]	[illegible]
Treas 3pc '66 Aft.		8.04	-	[illegible]	[illegible]	[illegible]	[illegible]
Consols 2½pc		8.02	-	31,[illegible]	[illegible]	[illegible]	[illegible]
Treas. 2½pc		8.18	-	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

Other Fixed Interest

[illegible]

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock.

CURRENCIES AND MONEY

MARKETS REPORT

German rate cut speculation grows

After the dramatic swings in interest rate sentiment that have occurred in the markets in recent weeks, interest rate debates continued to absorb traders yesterday, *writes Gillian Tett.*

On the one hand, speculation about a German rate cut was boosted after the Dutch and Belgian central banks reduced key rates yesterday.

On the other hand, expectations of a US rate cut appeared to be fading slightly, after surging last week.

And although UK base rates appear to have been left unchanged this month, the sterling futures markets remained jittery, reflecting the broader uncertainties affecting the markets in the run up to the G7 meeting in Halifax next week.

● The Dutch Central Bank yesterday cut its official interest rate by 25 basis points to 3.75 per cent, apparently in an attempt to stem the guilder's recent rise.

Meanwhile the Belgian Central Bank cut its end-of-day rate to 5.75 per cent from 6 per cent and reduced its emergency lending rate to 8.75 per cent from 9 per cent. The Belgian Bank, which left its other key lending rates unchanged, said that the move had been taken in co-ordination with the Dutch.

● The base rate cuts had relatively little impact on the Belgian and Dutch currencies, which closed at BFr20.54 and Fl1.118 per mark respectively - virtually unchanged on the previous day.

However, the move boosted the US dollar, on the back of growing speculation that a German rate cut may now be more likely.

These expectations had already been fuelled in the markets by comments made by Mr Hans Tietmeyer, Bundesbank president, late Wednesday, indicating that he believed that the German D-mark was currently overvalued.

Indeed, overnight on Wednesday the dollar staged a small rally against the D-Mark, briefly climbing above DM1.42. These gains were partly reversed in early morning trading in Europe on Thursday. However, the dollar rose again slightly after the Dutch and Belgian rate cuts, to close at DM1.4198 from the previous day's close of DM1.4074.

● With the G7 meeting due to take place next week, most traders do not expect any significant dollar movements in coming days. Mr Paul Chertkow of UBS says: "I think the dollar is going to be caught in a very narrow range up to the G7. It is an illiquid market, so it wouldn't take much to move it - but I don't think that is going to happen."

Nevertheless, the approach of the summit is creating uncertainty as speculation bubbles about the possibility of the G7 taking action to support the dollar.

"We are in an environment where investors seem very short of convictions," says Mr Avinash Persaud of JP Morgan.

Indeed, some analysts, like Mr Tony Norfield of ABN Amro, believe this is leading to a slight reconsideration of the dramatic swings in interest rate expectations that occured last week.

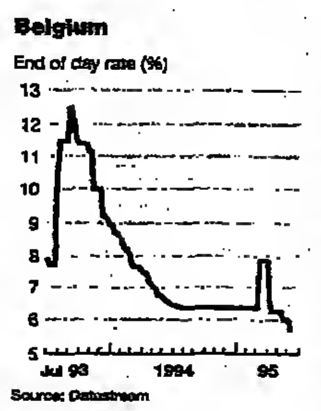
In particular, he points out, dollar futures have fallen back over the past two days, partly on the back of a growing recognition that a US rate cut may be rather more distant than the market was implying at the end of the last week. Meanwhile, the sterling futures market was also distinctly jittery yesterday. Although it rose about seven basis points in the morning on the back of weaker than expected UK industrial data, it later fell on the back of a Confederation of British Industry survey which implied that High Street price expectations are rising. The September contract finally closed slightly higher on the day at 93.05, but the longer contracts all fell back.

"There is a feeling that the markets might have got a bit overheated last Friday - it is still a possibility that there will be a UK interest rate increase and it seems less likely now that the Fed will cut rates," Mr Norfield argues.

● The dollar's small rally also gave some impetus to sterling, since the British currency largely maintained its parity against the dollar. It closed at DM2.255, compared with a previous day's close of DM2.2406.

● The Bank of England yesterday offered to purchase bank bills at the established fixed rates, signalling that interest rates remained unchanged at 6.75 per cent. After forecasting a morning shortage of £650m, the Bank cleared most of this in afternoon trading.

Belgium



Source: Datastream

■ Pound in New York

Jun 8	—Latest—	— Prev. close —
£ spot	1.5920	1.5885
1 mth	1.5931	1.5880
3 mth	1.5914	1.5872
1 yr	1.5775	1.5708

■ OTHER CURRENCIES

Jun 8	£	$
Hungary	195.347 - 195.550	123.030 - 123.080
Iran	4766.40 - 4783.40	3000.00 - 3000.00
Kuwait	0.4759 - 0.4770	0.2997 - 0.3002
Poland	3.7353 - 3.7400	2.3525 - 2.3540
Russia	7759.70 - 7759.58	4884.00 - 4887.00
U.A.E.	5.8290 - 5.8349	3.6715 - 3.6725

POUND SPOT FORWARD AGAINST THE POUND

Jun 8		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.8198	+0.0802	042 - 276	15.8740	15.6919	15.7926	1.8	15.7456	1.8	-	-	107.0
Belgium	(BFr)	46.3148	+0.3061	923 - 374	46.3880	46.0820	46.2499	1.7	46.1199	1.7	45.5099	1.7	109.5
Denmark	(DKr)	8.7881	+0.043	837 - 945	8.8037	8.7468	8.7927	-0.5	8.7844	0.2	8.7538	0.4	109.0
Finland	(FM)	6.8953	-0.0357	891 - 014	6.9370	6.8910	-	-	-	-	-	-	87.0
France	(FFr)	7.9137	+0.0333	096 - 178	7.9281	7.8848	7.9216	-1.2	7.9322	+0.9	7.8898	0.2	108.4
Germany	(DM)	2.2550	+0.0144	536 - 561	2.2607	2.2476	2.2515	1.8	2.2436	2.0	2.2044	2.2	111.6
Greece	(Dr)	362.641	+2.708	447 - 834	362.994	359.395	-	-	-	-	-	-	68.6
Ireland	(I£)	0.9930	+0.003	822 - 838	0.9942	0.9790	0.9926	0.5	0.9824	0.2	0.9827	0.0	97.2
Italy	(L)	2617.92	+2.26	630 - 953	2622.13	2605.98	2627.42	-4.4	2644.92	-4.1	2715.42	-3.8	67.6
Luxembourg	(LFr)	46.3148	+0.3061	923 - 374	46.3880	46.0820	46.2499	1.7	46.1199	1.7	45.5099	1.7	109.5
Netherlands	(Fl)	2.5205	+0.0149	182 - 216	2.5285	2.5105	2.5165	2.0	2.5128	1.2	2.4604	2.4	108.4
Norway	(NKr)	10.0161	+0.0398	103 - 216	10.0757	9.9969	10.0074	1.0	9.9838	1.3	9.8545	1.6	98.0
Portugal	(Es)	237.070	+1.462	815 - 324	237.876	234.508	238.205	-4.4	239.375	-3.9	-	-	95.6
Spain	(Pta)	195.091	+0.816	950 - 232	195.435	194.351	195.691	-3.1	196.865	-3.2	201.691	-3.4	81.0
Sweden	(SKr)	11.5072	+0.0011	996 - 177	11.5570	11.4847	11.5295	+0.2	11.514	-0.2	11.5320	-0.2	78.4
Switzerland	(SFr)	1.8604	+0.0171	590 - 618	1.8616	1.8527	1.8558	3.0	1.8455	3.2	1.7974	3.4	113.1
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	84.5
Ecu	-	1.2176	+0.0052	166 - 183	1.2190	1.2116	1.2177	0.0	1.2164	0.4	1.2092	0.7	-
SDR†	-	1.019800	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5862	-0.0036	876 - 888	1.5921	1.5860	-	-	-	-	-	-	-
Brazil	(R$)	1.4446	-0.005	433 - 458	1.4538	1.4433	-	-	-	-	-	-	-
Canada	(C$)	2.1832	-0.0131	821 - 843	2.1930	2.1793	2.1857	-1.4	2.1885	-1.0	2.1793	0.2	82.4
Mexico	(New Peso)	9.8236	-0.0488	086 - 364	9.8742	9.7806	-	-	-	-	-	-	-
USA	($)	1.5863	-0.0037	878 - 888	1.5923	1.5860	1.5879	0.3	1.5861	0.5	1.5715	1.1	89.0
Pacific/Middle East/Africa													
Australia	(A$)	2.1946	-0.0173	931 - 960	2.1977	2.1931	2.1968	-1.2	2.2002	-1.0	2.2095	+0.7	78.5
Hong Kong	(HK$)	12.2640	-0.0286	593 - 686	12.3141	12.2677	12.28	0.4	12.2706	0.4	12.2037	0.7	-
India	(Rs)	49.8862	-0.1122	548 - 676	50.0060	49.8300	-	-	-	-	-	-	-
Israel	(Shk)	4.7599	-0.0095	540 - 658	4.7751	4.7485	-	-	-	-	-	-	-
Japan	(Y)	135.053	+0.784	979 - 127	135.290	134.600	134.486	6.0	133.233	5.4	127.373	5.7	169.4
Malaysia	(M$)	3.8723	-0.0106	703 - 743	3.8847	3.8688	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3996	-0.0011	970 - 721	2.3722	2.3647	2.3744	-2.5	2.3835	-2.3	2.4002	-1.3	98.8
Philippines	(Peso)	40.9365	+0.0954	065 - 705	41.0705	40.8065	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.9571	-0.0144	550 - 591	5.9711	5.9486	-	-	-	-	-	-	-
Singapore	(S$)	2.2101	-0.0055	086 - 118	2.2149	2.2077	-	-	-	-	-	-	-
South Africa	(R)	5.8478	-0.0056	447 - 508	5.8589	5.8278	-	-	-	-	-	-	-
South Korea	(Won)	1207.66	-3.61	720 - 812	1210.83	1205.89	-	-	-	-	-	-	-
Taiwan	(T$)	40.7979	-0.0942	811 - 147	40.8968	40.7428	-	-	-	-	-	-	-
Thailand	(Bt)	39.2072	-0.0277	868 - 275	39.2980	39.1480	-	-	-	-	-	-	-

† Rates for Jun 7. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling Index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 8		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	9.9576	+0.061	535 - 620	10.0025	9.9330	9.9458	1.4	9.9253	1.3	9.8313	1.3	105.97
Belgium	(BFr)	29.1600	+0.26	550 - 650	29.1950	29.0350	29.125	1.4	29.07	1.2	28.85	0.7	109.4
Denmark	(DKr)	5.5337	+0.0399	320 - 353	5.5470	5.5103	5.5374	+0.8	5.5457	+0.9	5.5812	-0.9	109.0
Finland	(FM)	4.3413	+0.0325	388 - 438	4.3651	4.3240	4.3326	0.5	4.3363	0.5	4.3358	0.1	86.1
France	(FFr)	4.9826	+0.0325	015 - 835	4.9950	4.9635	4.999	-1.8	5.0015	-1.5	5.0315	-1.0	107.8
Germany	(DM)	1.4198	+0.0124	195 - 200	1.4235	1.4125	1.4161	1.4	1.4148	1.4	1.4041	1.1	111.2
Greece	(Dr)	228.330	+2.27	270 - 370	228.610	226.270	229.32	-10.5	234.07	-10.1	248.82	-9.4	68.0
Ireland	(I£)	1.6158	+0.0087	150 - 165	1.6220	1.6127	1.6163	-0.4	1.6181	-0.6	1.623	-0.4	-
Italy	(L)	1648.25	+5.25	775 - 875	1651.00	1643.25	1654.75	-4.7	1667.5	-4.7	1727.75	-4.8	67.0
Luxembourg	(LFr)	29.1600	+0.26	550 - 650	29.1950	29.0350	29.125	1.4	29.07	1.2	28.85	0.7	109.4
Netherlands	(Fl)	1.5870	+0.013	860 - 873	1.5917	1.5802	1.5849	1.6	1.5809	1.5	1.5689	1.1	109.1
Norway	(NKr)	6.3062	+0.0399	045 - 078	6.3449	6.2775	6.3074	-0.2	6.3002	0.4	6.2927	0.2	107.6
Portugal	(Es)	149.260	+1.265	210 - 310	149.670	148.350	149.71	-3.6	150.71	-3.9	156.51	-4.9	95.7
Spain	(Pta)	122.880	+0.6	780 - 880	123.040	122.250	123.17	-3.3	123.97	-3.7	128.305	-4.5	80.4
Sweden	(SKr)	7.2450	+0.0237	405 - 495	7.2800	7.2155	7.2607	-2.6	7.2985	-2.6	7.4825	-3.3	78.1
Switzerland	(SFr)	1.1713	+0.0134	708 - 718	1.1725	1.1652	1.1687	2.7	1.1638	2.6	1.1467	2.1	112.9
UK	(£)	1.5863	-0.0037	878 - 888	1.5923	1.5860	1.5879	-1.3	1.5861	0.5	1.5715	1.1	83.7
Ecu	-	1.3046	-0.0067	041 - 040	1.3095	1.3017	1.3043	0.1	1.3042	0.1	1.3002	0.3	-
SDR†	-	0.64120	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.0000	+0.0001	999 - 000	1.0000	0.9987	-	-	-	-	-	-	-
Brazil	(R$)	0.9095	-0.001	090 - 100	0.9130	0.9090	-	-	-	-	-	-	-
Canada	(C$)	1.3746	-0.005	743 - 748	1.3790	1.3725	1.3761	-1.4	1.3793	-1.4	1.3911	-1.2	80.5
Mexico	(New Peso)	6.1850	+0.07	600 - 100	6.2200	6.1600	6.1872	-0.4	6.1904	-0.4	6.1953	-0.2	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	90.0
Pacific/Middle East/Africa													
Australia	(A$)	1.3816	-0.0077	812 - 822	1.3840	1.3802	1.3832	-1.4	1.3871	-1.6	1.4063	-1.8	79.0
Hong Kong	(HK$)	7.7340	-0.0001	335 - 345	7.7346	7.7328	7.7322	0.3	7.7317	0.1	7.7475	+0.2	-
India	(Rs)	31.4085	+0.0025	050 - 120	31.4300	31.3850	31.4585	-3.1	31.7335	-4.1	-	-	-
Israel	(Shk)	3.0005	-0.0005	941 - 966	3.0072	2.9933	-	-	-	-	-	-	-
Japan	(Y)	85.0300	+0.69	100 - 500	85.1800	84.6000	84.885	4.7	84.03	4.7	81.325	4.4	171.1
Malaysia	(M$)	2.4380	-0.001	375 - 385	2.4455	2.4345	2.436	1.0	2.4336	0.7	2.426	0.4	-
New Zealand	(NZ$)	1.4919	+0.0042	906 - 930	1.4934	1.4898	1.4963	-2.7	1.5031	-2.7	1.5213	-2.0	-
Philippines	(Peso)	25.7750	-	000 - 500	25.8500	25.7000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7506	-0.0004	505 - 507	3.7507	3.7505	3.7515	-0.3	3.7536	-0.3	3.7656	-0.4	-
Singapore	(S$)	1.3915	+0.0002	910 - 920	1.3915	1.3880	1.3908	0.5	1.3815	2.0	-	-	-
South Africa	(R)	3.6818	+0.005	610 - 825	3.6845	3.6715	3.7026	-6.8	3.7538	-7.8	4.0098	-8.9	-
South Korea	(Won)	760.350	-0.5	300 - 400	760.800	760.300	763.35	-4.7	766.85	-3.4	785.25	-3.3	-
Taiwan	(T$)	25.8865	+0.0005	840 - 890	25.7050	25.8840	25.6065	-0.9	25.7455	-0.9	-	-	-
Thailand	(Bt)	24.8850	+0.04	800 - 900	24.7040	24.6750	24.706	-1.0	24.7325	-0.8	24.82	-0.5	-

† SDR rate per $ for Jun 7. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 7. Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

June 8	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	4½	4⅜	4⅞	4¾	4⅝	7.40	4.00	-
week ago	4⅝	4⅜	4⅞	5	5¼	7.40	4.00	-
France	7⅜	7¼	7¼	6¾	6½	5.00	-	8.00
week ago	7⅜	7¾	7⅝	7⅛	6¾	5.00	-	8.00
Germany	4½	4⅛	4⅛	4⅛	4½	6.00	4.00	4.51
week ago	4½	4⅛	4½	4½	4⅝	6.00	4.00	4.51
Ireland	6¾	6⅞	6⅝	6⅞	6⅝	-	-	6.25
week ago	6⅛	6⅞	6⅞	6⅞	7⅛	-	-	6.25
Italy	10⅝	10⅝	10⅞	10⅝	11⅛	-	7.50	10.40
week ago	10¼	10⅝	10⅞	10¾	11	-	7.50	10.40
Netherlands	4¼	4⅜	4⅜	4⅜	4⅜	-	5.25	-
week ago	4⅜	4⅜	4⅜	4⅜	4⅜	-	5.25	-
Switzerland	3	3⅛	3¼	3⅞	3⅛	6.625	3.00	-
week ago	2⅞	3½	3⅜	3⅝	3½	6.625	3.00	-
US	6	6	6	5⅞	5⅞	-	5.25	-
week ago	6	6	6	5⅞	5⅞	-	5.25	-
Japan	1⅜	1⅛	1⅛	1⅛	1⅛	-	1.00	-
week ago	1⅜	1⅜	1⅛	1⅛	1⅜	-	1.00	-
■ $ LIBOR FT London								
Interbank Fixing	-	6⅛	6⅛	6	5⅞	-	-	-
week ago	-	6⅛	6⅛	6	6	-	-	-
US Dollar CDs	-	5.84	5.85	5.78	5.80	-	-	-
week ago	-	5.84	5.79	5.76	5.77	-	-	-
ECU Linked Ds	-	6⅛	6⅛	6⅜	6½	-	-	-
week ago	-	6⅛	6⅜	6¼	6⅜	-	-	-
SDR Linked Ds	-	3⅝	3⅝	3⅞	3⅞	-	-	-
week ago	-	3⅝	4⅛	4⅛	4⅛	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jun 8	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	4$\frac{11}{16}$ - 4$\frac{9}{16}$	4$\frac{11}{16}$ - 4$\frac{9}{16}$	4⅝ - 4½	4¾ - 4⅝	4$\frac{27}{32}$ - 4$\frac{11}{16}$	5$\frac{1}{16}$ - 4$\frac{15}{16}$
Danish Krone	6½ - 6	6⅝ - 6⅜	6$\frac{11}{16}$ - 6½	6$\frac{11}{16}$ - 6½	6$\frac{11}{16}$ - 6$\frac{7}{16}$	6¾ - 6⅝
D-Mark	4⅝ - 4½	4$\frac{9}{16}$ - 4$\frac{7}{16}$	4½ - 4$\frac{7}{16}$	4$\frac{19}{32}$ - 4$\frac{15}{32}$	4$\frac{7}{16}$ - 4⅜	4½ - 4$\frac{7}{16}$
Dutch Guilder	4⅛ - 4	4$\frac{11}{32}$ - 4$\frac{1}{16}$	4¼ - 4⅛	4$\frac{5}{16}$ - 4$\frac{1}{16}$	4$\frac{7}{16}$ - 4$\frac{5}{16}$	4½ - 4¼
French Franc	7½ - 7⅜	7½ - 7⅜	7½ - 7⅜	7¼ - 7⅛	6⅞ - 6¾	6⅝ - 6½
Portuguese Esc.	9⅛ - 8$\frac{13}{16}$	9⅛ - 8⅞	9⅝ - 9⅜	10$\frac{1}{16}$ - 9$\frac{13}{16}$	10$\frac{9}{16}$ - 10$\frac{5}{16}$	11 - 10¾
Spanish Peseta	9$\frac{11}{32}$ - 9$\frac{7}{16}$	9$\frac{9}{16}$ - 9$\frac{7}{16}$	9½ - 9⅜	9$\frac{13}{16}$ - 9$\frac{11}{16}$	10¼ - 10⅛	10½ - 10⅜
Sterling	5¾ - 5⅝	6$\frac{1}{16}$ - 5$\frac{15}{16}$	6⅜ - 6¼	6$\frac{15}{32}$ - 6$\frac{11}{32}$	6¾ - 6$\frac{11}{16}$	7⅛ - 7
Swiss Franc	3$\frac{5}{16}$ - 3$\frac{3}{16}$	3¼ - 3⅛	3¼ - 3⅛	3$\frac{5}{16}$ - 3$\frac{3}{16}$	3$\frac{5}{16}$ - 3$\frac{3}{16}$	3$\frac{7}{16}$ - 3$\frac{5}{16}$
Can. Dollar	7½ - 7$\frac{5}{16}$	7$\frac{7}{16}$ - 7¼	7$\frac{7}{16}$ - 7¼	7¼ - 7⅛	7$\frac{1}{16}$ - 6$\frac{15}{16}$	7 - 6⅞
US Dollar	6$\frac{1}{16}$ - 5$\frac{15}{16}$	6$\frac{1}{16}$ - 5$\frac{15}{16}$	6$\frac{1}{16}$ - 5$\frac{15}{16}$	6$\frac{1}{16}$ - 5$\frac{15}{16}$	6 - 5⅞	6 - 5⅞
Italian Lira	10⅛ - 10	10¾ - 10½	10$\frac{11}{16}$ - 10$\frac{9}{16}$	10¾ - 10⅝	10$\frac{15}{16}$ - 10$\frac{13}{16}$	11⅛ - 11
Yen	1¼ - 1$\frac{1}{16}$	1¼ - 1$\frac{1}{16}$	1$\frac{7}{32}$ - 1$\frac{3}{32}$	1$\frac{3}{16}$ - 1⅛	1⅛ - 1$\frac{1}{16}$	1$\frac{5}{32}$ - 1$\frac{1}{32}$
Asian $Sing	⅛ - ⅛	¼ - ⅛	½ - ⅜	1 - ⅞	1½ - 1⅜	2¼ - 2⅛

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate (FFr5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	92.83	92.71	-0.11	92.85	92.67	16,082	31,676
Sep	93.75	93.57	-0.20	93.77	93.56	26,402	53,107
Dec	94.06	93.94	-0.13	94.09	93.94	6,485	34,087

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.56	95.56	-0.02	95.58	95.53	16175	105017
Sep	95.66	95.66	-0.03	95.68	95.61	34454	139325
Dec	95.57	95.57	-0.04	95.58	95.46	54542	134211
Mar	95.47	95.45	-0.06	95.48	95.34	28858	112464

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	89.30	89.32	-	89.35	89.21	5512	28238
Sep	89.29	89.28	-0.01	89.32	89.18	12390	34992
Dec	89.21	89.27	-0.01	89.28	89.16	2344	20870
Mar	89.23	89.27	-0.02	89.27	89.17	1126	9829

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.69	96.71	-0.01	96.71	96.68	1425	15088
Sep	96.67	96.67	-0.04	96.70	96.61	4364	20585
Dec	96.58	96.52	-0.07	96.58	96.48	1120	8100
Mar	96.45	96.41	-0.08	96.45	96.37	342	4083

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.83	93.82	-0.03	93.84	93.78	1085	6172
Sep	93.89	93.87	-0.05	93.92	93.82	1720	6697
Dec	93.87	93.88	-0.05	93.90	93.84	370	3580
Mar	93.81	93.78	-0.05	93.83	93.76	60	1610

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
8925	0.20	0.51	0.70	0.13	0.48	0.89
8950	0.08	0.38	0.57	0.26	0.60	0.80
8975	0.03	0.28	0.46	0.46	0.75	0.94

Est. vol. total, Calls 1000 Puts 1200. Previous day's open int., Calls 8071 Puts 5250

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 8		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.97	17.09	4.868	2.122	5652	5.443	21.63	511.9	421.2	24.85	4.018	2.159	4.713	3.428	281.7	2.630
Denmark	(DKr)	52.70	10	9.004	2.566	1.118	2979	2.868	11.40	269.8	222.0	13.10	2.118	1.138	2.484	1.807	153.7	1.388
France	(FFr)	58.53	11.11	10	2.849	1.242	3308	3.185	12.66	299.6	246.5	14.54	2.350	1.264	2.758	2.007	170.7	1.536
Germany	(DM)	20.54	3.898	3.510	1	0.436	1161	1.118	4.443	105.1	86.52	5.104	0.825	0.443	0.968	0.704	59.91	0.540
Ireland	(I£)	47.12	8.841	0.051	2.294	1	2663	2.565	10.16	241.2	198.5	11.71	1.892	1.017	2.221	1.615	137.4	1.239
Italy	(L)	1.769	0.336	0.302	0.086	0.038	100.	0.096	0.383	9.057	7.452	0.440	0.071	0.038	0.083	0.061	5.180	0.047
Netherlands	(Fl)	18.37	3.486	3.139	0.894	0.390	1038	1	3.975	94.05	77.39	4.566	0.738	0.397	0.866	0.630	53.58	0.483
Norway	(NKr)	46.23	8.771	7.898	2.250	0.981	2613	2.510	10	236.6	194.7	11.46	1.858	0.998	2.179	1.585	134.8	1.216
Portugal	(Es)	19.54	3.707	3.338	0.951	0.416	1104	1.063	4.226	100.	82.29	4.854	0.784	0.422	0.921	0.670	56.95	0.514
Spain	(Pta)	23.74	4.505	4.056	1.156	0.504	1342	1.292	5.136	121.5	100.	5.900	0.953	0.513	1.119	0.814	69.25	0.624
Sweden	(SKr)	40.24	7.636	6.876	1.959	0.854	2275	2.198	8.705	206.0	169.5	10	1.616	0.869	1.897	1.380	117.4	1.058
Switzerland	(SFr)	24.90	4.725	4.255	1.212	0.528	1408	1.355	5.387	127.5	104.6	6.188	1	0.538	1.174	0.854	72.63	0.655
UK	(£)	46.32	8.788	7.914	2.255	0.983	2618	2.521	10.02	237.1	195.1	11.51	1.860	1	2.183	1.588	135.1	1.216
Canada	(C$)	21.22	4.026	3.625	1.033	0.450	1199	1.155	4.590	108.6	89.37	5.273	0.852	0.458	1	0.727	61.89	0.558
US	($)	29.17	5.535	4.984	1.420	0.619	1649	1.588	6.310	149.3	122.9	7.248	1.171	0.630	1.375	1	85.06	0.767
Japan	(Y)	34.29	6.506	5.858	1.669	0.726	1938	1.866	7.417	175.5	144.4	8.520	1.377	0.740	1.610	1.175	100.	0.902
Ecu		38.03	7.216	6.498	1.851	0.807	2149	2.070	8.227	194.7	160.2	9.450	1.527	0.821	1.782	1.304	110.9	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7064	0.7069	-0.0036	0.7084	0.7030	21,859	60,862
Sep	0.7090	0.7095	-0.0037	0.7109	0.7058	2,538	13,191
Dec	-	0.7115	-	-	0.7115	186	1,589

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.1805	1.1804	-0.0031	1.1838	1.1752	15,614	55,890
Sep	1.1915	1.1948	-0.0032	1.1984	1.1905	3,520	10,878
Dec	1.2085	1.2085	-0.0038	1.2085	1.2085	280	1,352

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.8611	0.8573	-0.0049	0.8611	0.8531	15,484	23,517
Sep	0.8640	0.8628	-0.0046	0.8647	0.8609	1,594	5,167
Dec	0.8684	0.8676	-0.0044	0.8695	0.8676	10	737

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.5868	1.5900	-0.0014	1.5910	1.5858	5,251	23,217
Sep	1.5896	1.5880	-0.0008	1.5896	1.5870	1,410	4,798
Dec	-	1.5820	-	-	1.5820	1	175

UK INTEREST RATES

LONDON MONEY RATES

Jun 8	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7 - 6	6¼ - 6	6⅜ - 6¼	6⅝ - 6½	6¾ - 6⅝	7⅛ - 7
Sterling CDs	-	-	6⅜ - 6$\frac{5}{16}$	6$\frac{17}{32}$ - 6$\frac{13}{32}$	6$\frac{25}{32}$ - 6⅝	6⅞ - 6$\frac{13}{16}$
Treasury Bills	-	-	6⅛ - 6$\frac{1}{16}$	6$\frac{3}{16}$ - 6¼	-	-
Bank Bills	-	-	6¼ - 6$\frac{5}{32}$	6$\frac{15}{32}$ - 6$\frac{13}{32}$	6$\frac{17}{32}$ - 6$\frac{13}{32}$	-
Local authority deps.	5$\frac{3}{16}$ - 5$\frac{7}{16}$	6$\frac{1}{16}$ - 5$\frac{15}{16}$	6$\frac{3}{16}$ - 6$\frac{5}{16}$	6$\frac{15}{32}$ - 6$\frac{13}{32}$	6¾ - 6⅝	7$\frac{1}{16}$ - 6$\frac{15}{16}$
Discount Market deps	7¼ - 6⅝	6$\frac{5}{16}$ - 6$\frac{3}{16}$	-	-	-	-

UK clearing bank base lending rate 6¾ per cent from February 2, 1995

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	3	5¾	5¾	6	6¼

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount 6.1801pc. ECGD fixed rate Stg. Export Finance. Make up day May 31, 1995. Agreed rate for period June 26, 1995 to July 25, 1995, Schemes II & III 8.03pc. Reference rate for period Apr 29, 1995 to May 31, 1995, Schemes IV & V 6.789pc. Finance House Base Rate 7pc from June 1, 1995

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.25	93.32	+0.05	93.35	93.24	15671	65624
Sep	93.00	93.05	+0.01	93.14	92.95	47449	100453
Dec	92.89	92.88	-0.06	93.03	92.72	49023	81477
Mar	92.77	92.72	-0.12	92.91	92.57	18467	44030

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9325	0.12	0.16	0.27	0.05	0.38	0.64
9350	0.02	0.10	0.18	0.20	0.55	0.80
9375	0	0.05	0.11	0.43	0.75	0.98

Est. vol. total, Calls 13762 Puts 9226. Previous day's open int., Calls 213712 Puts 221831

EMS EUROPEAN CURRENCY UNIT RATES

Jun 8	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.15214	2.08820	+0.00065	-2.97	5.94	-
Belgium	39.3960	38.3639	+0.0158	-2.62	5.58	19
Austria	13.4383	13.1307	+0.0026	-2.34	5.20	-
Germany	1.91007	1.86724	+0.00042	-2.24	5.15	-
Spain	162.493	161.450	+0.109	+0.64	3.46	4
Denmark	7.28580	7.28100	-0.00175	-0.07	2.88	0
Portugal	195.792	196.433	+0.093	0.33	2.48	-2
France	6.40608	6.56207	+0.00474	2.44	0.35	-20
Ireland	0.792214	0.814335	-0.001013	2.79	0.00	-10
NON ERM MEMBERS						
Greece	292.867	300.527	+0.739	2.62	0.17	-
Italy	2106.15	2170.56	+2.41	3.06	-0.26	-
UK	0.786652	0.829231	-0.003101	6.41	-2.49	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	PUTS Jun	PUTS Jul	PUTS Aug
1.525	6.42	-	-	-	0.13	0.53
1.550	3.97	-	-	-	-	-
1.575	1.84	2.66	3.30	0.45	1.21	1.94
1.600	0.50	1.43	2.11	1.41	2.41	3.12
1.625	0.04	0.64	1.23	3.40	4.06	4.71
1.650	-	0.22	-	5.81	-	-

Previous day's vol., Calls 5,036 Puts 4,248. Prev. day's open int., Calls 286,075 Puts 374,317

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100% (May 26)

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.00	93.98	-0.02	94.00	93.94	66,957	317,453
Sep	94.23	94.21	-0.06	94.25	94.18	112,501	371,108
Dec	94.24	94.20	-0.05	94.27	94.16	182,980	335,931

■ US TREASURY BILL FUTURES (IMM) $1m per 100% (May 26)

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.43	94.45	-0.02	94.45	94.43	1,156	7,684
Sep	94.62	94.63	-0.03	94.65	94.59	575	11,051
Dec	94.72	94.66	-0.05	94.72	94.69	705	17,411

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jun	PUTS Jul	PUTS Aug	PUTS Sep
9550	0.09	0.23	0.28	0.29	0.03	0.07	0.10	0.13
9575	0.02	0.09	0.12	0.18	0.21	0.18	0.21	0.25
9600	0	0.03	0.05	0.08	0.44	0.37	0.39	0.42

Est. vol. total, Calls 8183 Puts 8470. Previous day's open int., Calls 249484 Puts 229502

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9650	0.22	0.28	0.28	0.01	0.12	0.26
9675	0.03	0.14	0.17	0.07	0.22	0.40
9700	0.01	0.07	0.09	0.30	0.40	0.57

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 1310 Puts 1055

BASE LENDING RATES

	%		%		%
Adam & Company	6.75	Duncan Lawrie	6.75	* Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	10
Allied Trust Bank	6.75	Exeter Bank Limited	7.75	Royal Bk of Scotland	6.75
AIB Bank	6.75	Financial & Gen Bank	7.50	Singer & Friedlander	6.75
●Henry Ansbacher	6.75	●Robert Fleming & Co	6.75	●Smith & Williamson Secs.	6.75
Bank of Baroda	6.75	Girobank	6.75	TSB	6.75
Banco Bilbao Vizcaya	6.75	●Guinness Mahon	6.75	Unity Trust Bank Plc	6.75
Bank of Cyprus	6.75	Habib Bank AG Zurich	6.75	Western Trust	6.75
Bank of Ireland	6.75	●Hambros Bank	6.75	Whiteaway Laidlaw	6.75
Bank of India	6.75	Heritable & Gen Inv Bk	6.75	Yorkshire Bank	6.75
Bank of Scotland	6.75	●Hill Samuel	6.75		
Barclays Bank	6.75	C. Hoare & Co	6.75		
Brit Bk of Mid East	6.75	Hongkong & Shanghai	6.75		
●Brown Shipley & Co Ltd	6.75	Julian Hodge Bank	6.75		
Citibank NA	6.75	●Leopold Joseph & Sons	6.75		
Clydesdale Bank	6.75	Lloyds Bank	6.75		
The Co-operative Bank	6.75	Meghraj Bank Ltd	6.75		
Coutts & Co	6.75	Midland Bank	6.75		
Credit Lyonnais	6.75	* Mount Banking	6.75		
Cyprus Popular Bank	6.75	NatWestminster	6.75		
		●Rea Brothers	6.75		

● Members of London Investment Banking Association
* In administration

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Prices for Trading on 09.06.95 Pool purchase price £/MWh	Final Prices for Trading on 11.05.95 Pool purchase price £/MWh	Pool selling price £/MWh
0030	18.41	9.58	9.56
0100	14.18	9.56	11.23
0130	14.18	9.56	11.23
[illegible]	[illegible]	[illegible]	[illegible]

LONDON SHARE SERVICE

BANKS, MERCHANT

	Notes	Price	+ or -	1995 high	1995 low	Mkt Cap£m	Yld Gr's	P/E
Barings 8pc Cm 2nd Prf.		69½#	—	90	50¾	8.31	18.8	–
9¼pc Non-Cum Prf		4¾#	—	†18½	3	1.90	–	–
Cater Allen	♣†	523	—	524	418	170.5	6.8	10.6
Close Bros.	♣†	278	-1	280	219	284.7	3.8	12.6
Gerrard & Nat	♣†□	461	—	460	385	224.5	8.5	13.3
Hambros	qv□	195	+3	253	182	329.5	5.1	10.6
7½pc Cv Pf		96	-½	112	84	128.2	8.0	–
Joseph (L)	♣†	383	—	408	353	78.2	6.1	10.6
King & Shaxson	♣	122	—	124	85	41.2	9.2	12.1
Kleinwort Benson	♣v□	686	+3	700	529	897.8	4.6	11.9
Rea Bros	♣v	51	—	67	51	24.8	2.5	18.7
Schroders	♣lw□	1125	—	*1145	906¾	1,698	1.5	15.0
N/V	lw	920	-3	*976¾	823¾	404.8	1.8	13.1
Singer & Fried	♣v□	60	+1	98	41	194.5	4.6	6.6
Union	♣v□	93	+1	105	70	24.7	4.0	–
Warburg (SG)	♣qv□	753xd	-7	883	655	1,664	3.7	–
Wintrust	♣qv	245	—	250	200	20.8	6.0	♦

BANKS, RETAIL

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

BUILDING MATS. & MERCHANTS - Cont.

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

INVESTMENT COMPANIES - Cont.

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL EXPLORATION & PRODUCTION - Cont.

OIL, INTEGRATED

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

RETAILERS, FOOD

RETAILERS, GENERAL

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

TRANSPORT - Cont.

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	1995 high	1995 low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£32½	—	£34	£29	2,164	2.4	17.9
Barlow	♣	984½	—	£10½	£4½	1,307	1.5	24.4
Gold Flds Prop R		144	—	152	118	14.7	7.1	8.7
MK Props		90	—	95	65	3.82	12.7	-
SASOL	♥	804	—	848	435	3,598	2.2	-
SA Brews		£17¾xd	—	£18½	£17⅞	4,986	1.9	ϕ
Tiger Oats		876	—	875	700	1,316	1.7	21.5
Tongaat-Hulett	†b	725xd	—	788	636	680.8	1.8	22.1

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated seperately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 21.4(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ϕ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
p Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings.
v P/e ratios are calculated under new ACT guidelines.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1275 a year for each security shown, subject to the Editor's discretion

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Reports published by ShareFinder Ltd.

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For readers phoning from outside UK, please dial +44 in place of the first 0.

FT MANAGED FUNDS SERVICE

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Money Funds
Pembroke Hall, Pembroke, Bermuda

GUERNSEY (SIB RECOGNISED)

Schroder Investment Mngmt (Guernsey) Ltd

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Apollo Investment Management Ltd

Arab Bank Fund Managers (Guernsey) Ltd

Bachmann Global Investment Fund Ltd

GT Asset Management - Contd.

Egerton Capital European Fund Plc

Emerging Dynamic Fund Plc

F.I.T. Investment Trust Ltd (n)

Framlington Investment Mgmt (Ireland) Ltd

Frank Russell Investments (Ireland) Ltd (n)

GM Fund Management (Ireland) Ltd

GT Asset Management (Ireland) Ltd

Global Resources Stock Fund

AXA Equity & Law Intl Fund Mgrs

City Financial Admin (IoM) Ltd

Duncan Lawrie Inv. Mgt. Ltd

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

FT MANAGED FUNDS SERVICE

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OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

Wells Fargo U.S. IT Fund

	Selling Price	Buying Price	+ or -	Yield Gross
Wells Fargo A Shs (z)	$13.96		-0.05	-
Wells Fargo B Shs (z)	$17.09		-0.03	-

Worldwide Limited

	Selling Price	Buying Price	+ or -	Yield Gross
NAV Apr 30	$68.25		—	-

Xiphias International Investment Fd Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Xiphias Global Growth	$9.92		—	-
Xiphias Int ECU Acc	Ecu1.7182		—	-
Xiphias Int ECU Dis	Ecu1.0813		—	-

Yamaichi Capital Management (Guernsey) Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Thai Inv Fund	$20.39		-0.20	-

MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars.
Yields % allow for all buying expenses.
Prices of certain older insurance linked plans subject to capital gains tax on sales.
(*) Funds not SIB recognised. The regulatory authorities for these funds are:
Guernsey - Financial Services Commission
Ireland - Central Bank of Ireland
Isle of Man - Financial Supervision Commission
Jersey - Financial Services Department
Luxembourg - Institut Monétaire Luxembourgeois.
Initial charge - Charge made on sale of units.
Selling price - Bid or redemption price.
Buying price - Offer or issue price.
Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:
(☆) - 0001 to 1100 hours
(♦) - 1101 to 1400 hours
(▲) - 1401 to 1700 hours
(#) - 1701 to midnight
E - Exit charge on sale of units.
C - Manager's periodic charge deducted from capital.
H - Historic pricing F - Forward pricing
s - Distribution free of UK taxes.
p - Periodic premium insurance plans.
s - Single premium insurance.
u - Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities).
x - Offered price includes all expenses except agent's commission.
z - Previous day's price.
GG - Guernsey gross.
♦ - Yield before Jersey tax.
† - Ex-subdivision.
S - Only available to charitable bodies.
Φ - Yield column shows annualised rates of NAV increase.
xd - Ex-dividend.

MARKET REPORT

Bid stories drive FT-SE to the brink of 3,400

By Steve Thompson, UK Stock Market Editor

A flurry of takeover interest, both actual and rumoured, saw the UK equity market ignore fears of a sell-off on Wall Street and a sizeable retracement by bond markets, and power ahead yesterday.

Fuelled by the sudden burst of takeover speculation surrounding the pharmaceuticals sector, the FT-SE 100 index at one point looked set to top the 3,400 level while the FT-SE Mid 250 Index, invigorated by the £835m cash bid for VSEL by GEC, appeared on the verge of closing above 3,700 for the first time since last September.

Both indices failed to close above those targets, with Footsie ending 10 higher at 3,380.8 and the Mid 250 settling 2.3 up at 3,698.1, after temporarily breaking through 3,700.

Another poor showing by the gilts market, where long-dated issues closed over 1¼ easier, took much of the shine off equities, despite hints that many big institutions had continued to shift funds out of bonds and into equities and cash.

Gilts weakened from the outset, hit by a big slide in US Treasury Bonds on Wednesday evening and renewed falls yesterday.

Slowing industrial production and manufacturing output lent support to arguments that Mr Kenneth Clarke, the chancellor of the exchequer, was right in resisting pressure from the governor of the Bank of England to increase UK interest rates. *The Confederation of British* industry survey of distributive trades carried out last month indicated a marginal rise in retail sales.

Footsie opened almost 10 points lower, affected by the 23 point fall in the Dow Jones Industrial Average and sizeable losses in bonds.

News that GEC had trumped BAe's offer for VSEL by offering £21.50 a share for the submarine manufacturer, a figure well in excess of most expectations, helped the Mid 250 index but had little impact on the leaders.

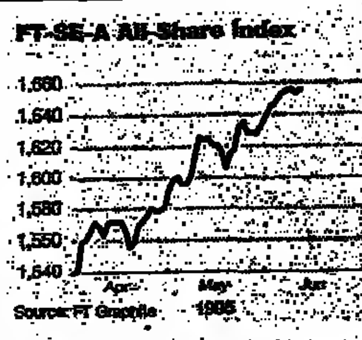
That picture in the blue chips was transformed in mid-morning by a sudden surge of interest in Zeneca, the pharmaceuticals group demerged from ICI two years ago. Such was the weight of buying and the market response, that the Stock Exchange declared Zeneca quotations as indicative only, meaning that marketmakers were not obliged to deal at the quoted prices.

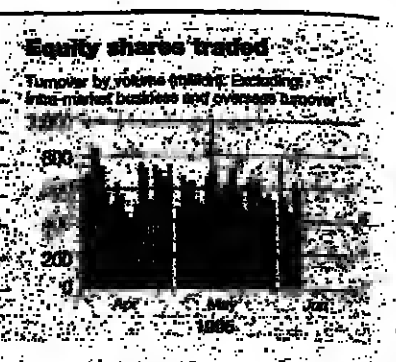
Zeneca shares spiralled upwards on stories of an imminent bid from Roche, the Swiss pharmaceuticals group. The Roche bid story has been circulating trading desks for at least a week. The speculation increased in intensity since Credit Suisse First Boston and Swiss Bank Corporation were highly visible buyers of Zeneca stock.

Some of the froth was blown off the Zeneca share price after the company said it knew of no reason for the steep rise in the shares.

One strategist said the market would have struggled to remain in positive territory without the benefit of the bid rumours. The rise in Zeneca was worth 4.3 Footsie points, and that of the three drug stocks, Zeneca, Glaxo and Smith-Kline Beecham, 8.8 points.

Turnover was a very disappointing 609.8m shares, with non-Footsie stocks accounting for only just over half the total. Customer business on Wednesday was worth £1.47bn.





Indices and ratios

FT-SE 100	3380.8	+10.0	FT Ordinary index	2545.9	+2.4
FT-SE Mid 250	3698.1	+2.3	FT-SE-A Non Fins p/e	16.84	(16.75)
FT-SE-A 350	1678.7	+4.1	FT-SE 100 Fut Jun	3382.0	+2.0
FT-SE-A All-Share	1658.48	+3.64	10 yr Gilt yield	7.62	(7.62)
FT-SE-A All-Share yield	3.92	(3.92)	Long gilt/equity yld ratio:	2.05	(2.03)

Best performing sectors

1 Pharmaceuticals	+3.5
2 Retailers, Food	+1.4
3 Consumer Goods	+1.3
4 Building Matls & Merch	+0.9
5 Telecommunications	+0.7

Worst performing sectors

1 Insurance	-2.0
2 Transport	-0.8
3 Banks, Retail	-0.8
4 Textiles & Apparel	-0.7
5 Life Assurance	-0.6

Takeover flurry at Zeneca

Rumours surrounding Zeneca for the past week finally crashed into the market and the pharmaceuticals sector yesterday, sending both sharply higher.

Speculation of a bid from Roche of Switzerland sent Zeneca shares racing ahead by 140p before they closed 74½ up at 1068p, a new peak. Turnover of 7.4m shares was one of the heaviest in the past 12 months.

The story, however, was less straightforward. It dated back to a recent push, by Merrill Lynch, to clients in New York, which encouraged buying and left the market short of stock.

Then, last Friday, the idea took hold that Volvo might be about to sell its 27 per cent stake in Pharmacia of Sweden, a group which had previously been linked to Zeneca. At the same time, dealers suggested Roche of Sweden might be interested in making a move on the UK company.

Yesterday morning, a story whipped through the market that a Zeneca announcement would be made early in the afternoon. This was given credence by aggressive buying from Swiss securities houses, Swiss Bank and Credit Suisse.

The demand for shares was exacerbated further by aggressive speculative activity in the options market.

Prices were declared indicative mid morning. Shortly afterwards, Zeneca said it had no idea what lay behind the moves and Roche said it would not comment. Roche ended the day SFr70 lower at SFr7,060.

Many analysts were sceptical about a Zeneca takeover, arguing that it was a well-run company with no desire to lose its independence. They added that the necessary exit multiples would be too demanding. On an exit multiple comparable to Wellcome's, it was estimated that a bid of 1250p a share might be effective. However, other said that a bid of above £14bn, or 1500p a share, would have to be considered.

The other sector leaders were pushed forward by the Zeneca situation. SmithKline rose 16½ to 551½ on turnover of 7.9m shares while Glaxo Wellcome rebounded 16½ to 749p, with 8.2m traded. Fisons rose 11 to 193p with 5.4m dealt.

VSEL upsurge

GEC's counter-bid for VSEL was seen as a potentially lethal blow to British Aerospace's ambitions to acquire the submarine group. Dealers openly admitted that GEC's £21.50 a share bid was more than they had pencilled in from the cash-rich electronics giant, and BAe shares were heavily marked down as a result.

Analysts took the view that, from this point upwards, both contenders face clear earnings dilution. A straw poll among top analysts suggested that the odds on a renewed offer from BAe were even at best. Down 17 at one stage, BAe closed 14 lower at 527p in 7.6m turnover, at which level the value of its all-share deal shrinks to £17.53. VSEL jumped 302 to 2,140p while GEC slipped 3 to 322p.

GUS retreats

Shares in Great Universal Stores fell 9½ to 624p, on reports that Cazenove, its broker, had turned cautious on the stock. Several brokers also advised investors to take profits its in the stock, although many continue to expect the company will pay a special dividend, to be announced with full year figures in July. Volume was 2.8m at the close.

Retailer Etam tumbled 30 to 176p after a disappointing trading update, in which it warned of a first half trading loss if sales remain at present levels.

MFI Furniture eased 3 to 121p, after BZW cut its current year profits estimate. The investment bank now expects profits will be £10m lower at £65m. BZW said the change reflected poor housing market conditions and greater than expected increases in the price of raw materials.

WH Smith Group shed 3 to 352p, after announcing Mr Peter Troughton, managing director of UK retailing, is to leave the company in July.

General investment buying boosted Sears. The shares hardened 4 to 112p, in trade of 3.2m.

Recent suggestions from the German Thyssen group that European steel prices may have peaked led to an active day for British Steel, which closed 2¼ lower at 166½p in 7m turnover. The shares have dipped 4½p in two days.

The group's comments about weakening US motor industry demand overshadowed top-of-the-range profits and a bumper dividend at materials technology and catalytic group Johnson Matthey. The shares tumbled 19 to 569p.

Materials handling specialist 600 Group gained 13 to 94p as it moved out of the red.

Cable TV shares sprang to life on news of the TeleWest Communications and SBC CableComms merger plan. TeleWest itself gained 5¼ to 169p. General Cable added 8½ to 188p and is now just 2 short of the April flotation price.

Mobile phones leader Vodafone rose 6 to 225½p for a three-day advance of more than 10 per cent. Turnover in the stock has totalled 48m since Tuesday's strong results statement.

Dividend worries continued to depress freight specialist NFC, which tumbled 8 to 168p in 9.4m shares traded, for a two-day decline of more than 7 per cent. NatWest Securities suggested the group may be forced to cut its payout this year. Glass leader Pilkington surged following strong results and at least one broker upgrade. Adjusting for the group's £400m of contact lens write-offs, profits doubled last year. The shares added 11 to 189p in 6m turnover.

Builders merchant Wickes shed 8 to 114p as Smith New Court moved its stance on the shares from buy to hold.

The market continued to celebrate Wednesday's favourable figures from leisure and rental company Granada Group. The shares jumped 10 to 614p, with BZW said to have shown a keen interest in the shares. NatWest Securities is also a buyer of the stock and said: "A market rating excluding the BSkyB stake makes for an attractive opportunity."

Bank stocks were weak, with a sizeable sell order taking Royal Bank of Scotland down 11 to 421p, Barclays falling 10½ to 683p on Wednesday's 'take profits' advice from broker BZW and Lloyds sliding 9 to 654p on reports that it is interested in acquiring the National & Provincial building society.

A slide in full-year profits and a gloomy results statement pushed Bradstock, the insurance broker, down 17 to 63p. Others in the sector responded in sympathy. Steel Burrill Jones fell 9 to 89p, Lowndes Lambert 12 to 152p and Sedgwick 4 to 148p.

Packaging group Rexam fell 7½ to 484½p, as Panmure Gordon advised clients to take some profits after a good run. The house said the stock was at a five per cent discount to the market at the start of the year and had moved to a 15 per cent premium.

Navan Resources, an Irish unclassified mining group, lifted 21 to 186p after announcing profits doubled at I£1.2m.

MARKET REPORTERS:
Peter John
Joel Kibazo,
Jeffrey Brown,

■ Other statistics, Page 29

FINANCIAL TIMES EQUITY INDICES

	Jun 8	Jun 7	Jun 6	Jun 5	Jun 2	Yr ago	*High	*Low
Ordinary Share	2545.9	2543.5	2549.6	2553.7	2526.1	2401.8	2583.7	2238.3
Ord. div. yield	4.21	4.21	4.21	4.21	4.25	4.20	4.73	4.20
P/E ratio net	15.91	15.89	15.89	15.91	15.77	16.96	21.33	15.73
P/E ratio nil	15.67	15.65	15.66	15.68	15.53	19.59	22.21	15.49

*For 1995. Ordinary Share index since compilation: high 2713.6 2/02/94; low 49.4 26/6/40
FT Ordinary Share index base date 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2537.9	2538.8	2543.8	2542.0	2549.8	2547.4	2542.7	2544.2	2545.3	2553.0	2537.2

	Jun 8	Jun 7	Jun 6	Jun 5	Jun 2	Yr ago
SEAQ bargains	23,703	24,404	25,399	23,456	23,456	23,353
Equity turnover (£m)†	-	1468.0	1731.6	1063.5	1361.6	1711.0
Equity bargains†	-	34,488	36,272	34,498	34,321	27,745
Shares traded (ml)†	-	606.2	632.9	450.0	541.3	592.1

†Excluding intra-market business and overseas turnover.

■ London market data

Rises and falls*		1995 Highs and lows		LIFFE Equity options	
Total Rises	597	Total Highs	153	Total contracts	34,169
Total Falls	591	Total Lows	34	Calls	18,638
Same	1,678			Puts	15,631

June 8. *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3370.0	3382.0	+2.0	3397.0	3360.0	[illegible]	[illegible]
Sep	3400.0	3405.5	+2.5	3422.5	3390.0	6311	[illegible]
Dec	-	3431.0	+2.0	-	-	0	[illegible]

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3706.0	3705.0	-1.0	3708.0	3705.0	49	2009
Sep	3733.0	3737.0	-1.0	3733.0	3733.0	20	[illegible]

■ FT-SE 100 INDEX OPTION (LIFFE) (*3377) £10 per full index point

[illegible]

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

Calls 1,287 Puts 2,534 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

[illegible]

FT GOLD MINES INDEX

	Jun 7	% chg on day	Jun 6	Jun 5	Year ago	Gross div yield %	52 week High	52 week Low
Gold Mines Index (33)	1893.25	+1.2	1871.76	1881.87	1899.29	2.16	[illegible]	[illegible]
■ Regional Indices								
Africa (16)	2515.02	+0.4	2504.37	2513.57	2582.17	[illegible]	[illegible]	[illegible]
Australasia (6)	2151.54	+0.9	2132.49	2137.02	2561.76	1.82	2561.49	1768.30
North America (11)	1683.05	+1.6	1657.26	1668.76	1584.90	0.81	1911.21	1348.18

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Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92.
Latest prices were unavailable for this edition.

FT - SE Actuaries Share Indices — The UK Series

	Jun 9	Day's chge%	Jun 7	Jun 6	Jun 5	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3380.8	+0.3	3370.8	3380.0	3376.6	3028.9	4.10	2.01	15.15	70.24	1319.96
FT-SE Mid 250	3698.1	+0.1	3695.8	3700.9	3690.1	3598.3	3.54	'1.86	18.89	54.85	1415.55
FT-SE Mid 250 ex Inv Trusts	3707.5	+0.1	3704.7	3708.5	3697.7	3605.9	3.67	1.93	17.67	56.23	1417.65
FT-SE-A 350	1678.7	+0.2	1674.8	1678.7	1676.3	1532.8	3.97	1.98	15.87	32.65	1338.27
FT-SE-A 350 Higher Yield	1701.0	+0.2	1697.1	1702.3	1700.6	1527.8	4.82	1.75	14.80	39.71	1119.98
FT-SE-A 350 Lower Yield	1655.2	+0.3	1650.8	1653.8	1650.4	1498.5	2.97	2.42	17.34	25.19	1108.92
FT-SE SmallCap	1864.01	-0.1	1865.58	1868.07	1867.32	1864.17	3.28	1.52	23.45	28.44	1480.96
FT-SE SmallCap ex Inv Trusts	1841.18	-0.1	1842.79	1845.02	1844.73	1840.36	3.48	1.70	21.18	29.67	1469.08
FT-SE-A ALL-SHARE	1658.48	+0.2	1654.84	1658.74	1656.47	1524.57	3.92	1.96	16.28	31.72	1345.07

■ FT-SE Actuaries All-Share

	Jun 8	Day's chge%	Jun 7	Jun 6	Jun 5	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	2867.36	----	2868.27	2868.80	2875.35	2584.19	3.65	2.07	16.57	61.64	1184.30
12 Extractive Industries(7)	3825.35	----	3825.71	3826.47	3839.33	3852.11	3.71	2.07	16.33	91.94	1083.23
15 Oil, Integrated(3)	2863.91	----	2864.94	2865.19	2871.45	2514.08	3.76	2.19	15.37	61.83	1209.78
19 Oil Exploration & Prod(14)	2060.24	+0.1	2058.83	2068.14	2063.29	1893.33	2.40	0.67	78.14	61.57	1212.12
20 GEN INDUSTRIALS(278)	1671.88	+0.1	1969.28	1975.10	1980.26	1988.83	4.01	1.70	18.36	37.48	1035.00
21 Building & Construction(38)	999.83	+0.4	996.11	1000.14	1005.37	1201.09	3.99	1.88	19.90	20.64	806.60
22 Building Matls & Merchs(31)	1818.65	+0.9	1800.09	1807.24	1815.03	1929.08	4.09	1.84	16.64	37.17	883.10
23 Chemicals(22)	2443.27	+0.2	2438.56	2431.07	2437.48	2443.48	3.89	1.54	20.86	52.12	1117.54
24 Diversified Industrials(18)	1881.34	-0.1	1883.06	1893.06	1894.75	1974.02	5.13	1.59	15.35	50.64	1001.91
25 Electronic & Elect Equip(36)	2046.56	-0.5	2057.78	2065.07	2075.14	2036.43	3.57	1.94	19.08	15.42	1019.32
26 Engineering(72)	1990.86	+0.2	1986.93	1991.85	1992.72	1841.54	3.17	1.85	21.31	27.16	1165.13
27 Engineering, Vehicles(13)	2343.24	+0.1	2340.88	2346.10	2338.53	2310.00	3.91	0.54	58.76	48.54	1173.06
28 Paper, Pckg & Printing(27)	2376.98	+0.4	2364.51	2371.63	2336.99	2769.54	3.25	2.27	16.95	42.42	1196.8?
29 Textiles & Apparel(21)	1666.31	-0.7	1677.88	1665.27	1693.77	1732.83	4.24	1.60	18.44	36.87	978.03
30 CONSUMER GOODS(96)	3202.43	+1.3	3160.24	3149.76	3167.24	2635.96	4.08	1.81	18.88	69.66	1139.75
31 Breweries(18)	2409.83	+0.8	2402.98	2411.12	2415.04	2185.12	4.12	2.03	14.97	44.82	1119.46
32 Spirits, Wines & Ciders(10)	2781.88	-0.1	2784.69	2773.96	2783.71	2847.55	4.26	1.5?	15.80	77.23	967.95
33 Food Producers(24)	2525.96	+0.2	2519.65	2511.98	2503.64	2217.06	4.02	1.97	15.76	55.89	1100.21
34 Household Goods(10)	2618.98	-0.3	2626.36	2618.35	2608.92	2454.65	3.52	0.98	36.41	54.80	969.92
36 Health Care(17)	1769.61	+0.3	1763.68	1764.95	1767.56	1688.54	2.87	2.34	18.60	24.09	1048.35
37 Pharmaceuticals(12)	4076.11	+3.5	3938.73	3919.25	3888.42	2743.87	3.81	1.62	20.29	66.31	1332.68
38 Tobacco(2)	4318.55	+0.3	4306.80	4286.95	4239.92	3611.50	5.26	1.90	12.52	131.29	1022.10
40 SERVICES(229)	2054.55	+0.1	2052.27	2059.46	2060.41	1967.32	3.30	2.12	17.86	33.12	1035.90
41 Distributors(32)	2600.56	+0.2	2595.42	2617.44	2609.49	2806.06	3.72	2.00	16.78	46.81	927.12
42 Leisure & Hotels(29)	2343.25	----	2343.78	2339.43	2343.43	2128.37	3.36	1.70	21.86	37.23	1182.61
43 Media(43)	3030.76	+0.1	3026.90	3044.76	3035.70	3021.31	2.60	2.35	20.46	54.49	1075.86
44 Retailers, Food(16)	2061.09	+1.4	2032.62	2052.55	2066.92	1511.67	3.37	2.44	15.22	35.45	1267.43
45 Retailers, General(44)	1686.44	-0.1	1687.89	1688.97	1688.31	1691.67	3.39	2.19	16.82	27.94	933.70
48 Support Services(37)	1625.57	-0.2	1628.32	1635.73	1637.85	1584.16	2.73	2.53	19.08	19.97	1008.73
49 Transport(21)	2269.71	-0.8	2289.70	2233.30	2288.89	2344.55	4.12	1.76	17.25	29.32	908.50
51 Other Services & Business(7)	1223.83	----	1224.50	1228.26	1242.85	1198.36	3.71	1.24	27.08	12.40	1072.97
60 UTILITIES(37)	2427.20	+0.4	2417.90	2412.79	2392.79	2224.02	4.60	1.95	13.96	27.66	964.84
62 Electricity(17)	2314.25	-0.3	2322.27	2287.54	2262.41	2127.06	4.48	2.77	10.05	27.40	993.70
64 Gas Distribution(2)	2084.37	+0.8	2071.58	2052.14	2045.74	1854.77	5.75	0.65	33.35	66.76	1012.70
66 Telecommunications(5)	2091.94	+0.7	2076.90	2089.85	2066.40	1969.93	4.08	1.63	18.92	8.38	911.62
68 Water(13)	1960.35	+0.6	1949.13	1960.06	1956.42	1717.23	6.29	2.76	8.56	23.53	1009.33
69 NON-FINANCIALS(681)	1782.47	+0.4	1774.76	1775.70	1773.40	1646.45	3.91	1.90	16.84	82.18	1297.89
70 FINANCIALS(117)	2440.25	-0.7	2458.11	2484.66	2480.89	2157.88	4.34	2.88	12.88	64.12	1003.26
71 Banks, Retail(9)	3278.51	-0.8	3305.41	3351.14	3355.06	2798.71	4.20	2.91	10.24	90.64	1019.10
72 Banks, Merchant(6)	3252.61	-0.1	3255.76	3317.54	3322.75	2828.74	3.27	1.69	18.23	56.32	1005.70
73 Insurance(26)	1341.83	-2.0	1369.80	1384.85	1376.92	1230.78	5.31	1.84	12.83	43.40	961.91
74 Life Assurance(6)	2711.32	-0.6	2726.83	2744.62	2724.31	2315.34	5.01	1.36	18.30	81.02	1087.91
77 Other Financial(22)	2043.55	-0.2	2047.61	2048.22	2039.20	1825.22	3.80	2.32	14.15	26.66	1119.72
79 Property(46)	1497.27	+0.6	1488.64	1490.38	1483.08	1535.49	4.06	1.24	24.84	25.34	884.46
80 INVESTMENT TRUSTS(133)	2816.85	-0.2	2821.35	2831.83	2825.66	2760.44	2.31	1.03	52.64	29.49	962.40
89 FT-SE-A ALL-SHARE(911)	1658.48	+0.2	1654.84	1658.74	1656.47	1524.57	3.92	1.08	16.28	31.72	1345.07
FT-SE-A Fledgling	1016.29	+0.2	1014.62	1013.86	1013.24	-	2.93	1.21	35.20	14.08	1031.06
FT-SE-A Fledgling ex Inv Trusts	1010.20	+0.2	1008.16	1007.19	1006.83	-	3.10	1.25	32.22	14.44	1025.31

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3361.3	3364.2	3373.3	3374.5	3387.6	3382.7	3374.5	3379.0	3377.7	3395.0	3361.3
FT-SE Mid 250	3698.0	3698.1	3698.1	3697.7	3702.2	3701.4	3701.0	3701.3	3698.8	3703.6	3696.8
FT-SE-A 350	1671.2	1672.4	1675.8	1676.3	1681.8	1679.6	1676.6	1678.0	1677.6	1684.8	1671.2

Time of FT-SE 100 Day's high: 11.53am Day's low: 8.30am . FT-SE 100 1995 High: 3380.8 (8/6) Low: 2954.2 (23/1).

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	986.4	988.1	981.8	991.4	993.7	992.6	992.8	992.6	991.9	991.1	985.8	+5.3
Pharmaceuticls	3896.0	3897.2	3939.6	3978.5	4061.2	4033.8	3997.3	4029.8	4035.1	4041.3	3903.9	+137.4
Water	1944.1	1944.0	1944.9	1949.8	1958.5	1958.6	1954.1	1955.2	1955.1	1955.3	1944.2	+11.1
Banks, Retail	3326.0	3321.4	3339.5	3339.5	3345.8	3339.6	3329.3	3325.8	3317.6	3320.4	3347.6	-27.2

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 9HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based productsrelating to these indices, is available from FINSTAT, Fitzroy House, 13-17 Epworth Street, London EC2A 4DL.
The FT "500" has been renamed FT-SE-A Non-Financials Index. The FT-SE 100, the FT-SE Mid 250, FT-SE Actuaries 350 and the FT-SE Actuaries Industry baskets are calculated by the International Stock Exchange of the United Kingdom and Republic of Ireland and the FT-SE Actuaries All-Share Index is compiled by The Financial Times Limited, both in conjunction with the Institute of Actuaries and the Faculty of Actuaries under a standard set of ground rules.

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† Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative.

TRADING VOLUME

■ Major Stocks Yesterday

[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 index constituent. All trades are included.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 8 / Sch)

BELGIUM/LUXEMBOURG (Jun 8 / Frs.)

CZECH REP (Jun 8 / Koruna)

DENMARK (Jun 8 / Kr)

FINLAND (Jun 8 / Mkk)

FRANCE (Jun 8 / Frs.)

GERMANY (Jun 8 / Dm.)

GREECE (Jun 8 / Drachma)

ITALY (Jun 8 / Lira)

NETHERLANDS (Jun 8 / Fls.)

NORWAY (Jun 8 / Kroner)

POLAND (Jun 7 / Zloty)

PORTUGAL (Jun 8 / Escudo)

SPAIN (Jun 8 / Pta.)

SWEDEN (Jun 8 / Kronor)

SWITZERLAND (Jun 8 / Frs.)

TURKEY (Jun 8 / Tk Lira)

PACIFIC

JAPAN (Jun 8 / Yen)

AUSTRALIA (Jun 8 / Aust$)

HONG KONG (Jun 8 / H.K.$)

INDONESIA (Jun 8 / Rupiah)

MALAYSIA (Jun 8 / MYR)

NEW ZEALAND (Jun 8 / NZ $)

SINGAPORE (Jun 8 / S$)

SOUTH KOREA (Jun 8 / Won)

TAIWAN (Jun 8 / TW $)

THAILAND (Jun 8 / Baht)

NORTH AMERICA

CANADA

TORONTO (Jun 8 / Can $) 4 pm close

MONTREAL (Jun 8 / Can $) 4 pm close

AFRICA

SOUTH AFRICA (Jun 8 / Rand)

INDICES

■ INDEX FUTURES

■ CAC-40

■ DAX

■ CMEX

■ SOFFEX

US INDICES

Dow Jones

Standard and Poors

■ RATIOS

■ NEW YORK ACTIVE STOCKS

■ TRADING ACTIVITY

■ S&P 500

■ Nikkei 225

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are usually last traded prices. Highs/Lows are for 1995, except Toronto & Montreal (daily). s Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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■ TOKYO - MOST ACTIVE STOCKS: Thursday, June 8, 1995

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Fudo Constn	9.2m	725	+28	Tamura Elec Wks	2.9m	992	-18
Maruyama Mfg	7.7m	601	+4	NKK Corp	2.8m	209	
Nippon Steel	6.4m	298	-3	Hitachi	2.8m	828	-5
Kawasaki Steel	3.4m	303	-7	Mitsubishi Chem	2.6m	384	-13
Chino Corp	3.0m	557	-11	Sharp Corp	2.6m	1100	-40

4 pm close June 8

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1995 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
15½	12⅞	AAR	0.48	3.2	25	141	15⅛	15	15⅛	
24	17	ALPharmaA	0.10	1.0	144	72	16⅞	18⅝	18¾	
43⅞	35	AMP	0.82	2.2	22	1189	42⅞	41⅞	41⅞	-⅛
70	63⅞	AMR			22	6849	68⅞	68⅞	69¼	-⅝
47⅞	41⅞	ASA	1.71	3.9	29	807	44⅛	43½	44⅛	+¼
40⅞	30¾	AbbotL	0.84	2.1	20	5570	39⅞	39¼	39¾	+¼
17¼	12	Abitibi Pr x	0.40	2.5	124	567	18⅛	18	18⅛	
24⅞	21	ABM Ind	0.08	2.7	13	33	22½	22⅞	22½	
16⅝	13½	Acplncain			0	116	14½	14⅞	14½	
27½	21⅞	ACE Ltd	0.56	2.1	11	2633	27	68	26⅞	+⅞
9⅞	8⅛	ACM Gvt In	0.80	0.5	0	257	0½	9⅞	9½	+⅛
7½	6½	ACM GvOpp	0.66	8.9		137	u7½	7⅞	7⅞	
7½	6¾	ACM Gvt Sp	0.75	10.9		88	7	6⅞	6⅞	
8⅝	7¾	ACM Gvt Se	0.80	10.7		171	8½	8⅞	8⅞	-¼
9½	7⅞	ACM Mun	1.08	11.7		205	9⅞	9¼	9¼	
28⅛	10¼	AcmeCir	0.48	2.1	11	491	23⅝	22½	26	-¼
28¾	12⅛	Acme Elect			69	122	27¾	27½	27¾	+¼
34½	26	Acordia	0.72	2.4	14	0	30½	30½	30½	
11⅞	8⅝	Acteva	0.36	3.1	9	1295	u11⅝	11¼	11½	+⅛
16¾	10⅛	Acuson			23	907	11½	11¼	11¼	
17⅞	15⅝	Adams Expr	0.48	2.6	8	98	17⅞	17¼	17¼	-⅛
37½	25	AdvMic			3	4721	34⅞	33⅞	34⅞	+⅝
6⅞	5	Advest Grp	0.18	2.3	35	344	06⅞	6¾	6⅞	+⅛
21¾	18½	Advo Inc	0.10	0.5	17	44	21½	21¼	21⅜	
83¾	62	Aegon	2.57	3.0	10	179	u85¼	84	85¼	+2⅛
4⅞	3⅝	Aerflx			0	624	4¼	4⅛	4¼	+⅛
60¾	46¾	AetnaL	2.76	4.5	11	12401	u62	60½	61¾	+1⅞
44½	31⅞	Aflac	0.52	1.2	14	1115	u44¾	44⅛	44½	+⅜
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Continued on next page

4 pm close June 8

NYSE COMPOSITE PRICES

1995 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
Continued from previous page										
43¼	32¾	Salomn	0.64	1.6	18	2622	41⅝	41⅛	41¼	
22⅞	19⅛	SDgGE	1.50	7.1	15	307	25	21⅞	21⅞	
10⅛	8	SantaFeEls	0.16	1.6	90	1007	u10⅛	10	10	-⅛
13⅝	9	SFeGd	0.05	0.4	30	3542	13	12½	13	+¼
37⅞	33¼	SFePPipe	3.00	8.1	9	142	37⅝	37⅛	37¼	-¼
24½	17⅛	SanFeP	0.10	0.4	27	2506	24¼	23¾	24	-¼
28½	24¾	SaraLee x	0.68	2.5	53	3579	27¾	27⅜	27⅝	-⅛
46¾	38⅝	SBC Cm	1.65	3.6	16	3012	45⅞	45⅛	45¾	+⅛
23⅝	20½	Scana Corp	1.44	6.6	74	1156	22⅛	21⅞	21⅞	-⅜
10	14½	Scecrp	1.00	5.7	11	2744	17⅝	17½	17½	-¼
11¼	7¼	SchawkA	0.26	3.2	12	13	0¼	0¼	8¼	-⅛
50¼	42¾	ScheraPP			23	240	47¼	40	47¼	+1⅛
61⅛	71	SchPl	2.32	2.9	15	2708	80⅝	70⅜	88	+⅛
65⅞	50⅛	Schlmb	1.00	2.3	27	2554	64¾	64½	64⅝	-⅛
40⅞	28⅝	Schwab(C)	0.24	0.6	24	1277	38⅞	38⅝	38½	-⅛
24⅞	17½	SciAtl s	0.06	0.3	24	2715	20	19⅝	20	+⅝
19¾	76⅞	Scotrsn	0.19	0.5	12	38	19½	19⅜	19½	+⅛
46⅝	33½	ScottP	0.40	0.9	19	8195	43¾	42¼	43⅝	+¾
32¾	26⅞	Scripps	0.52	1.7	16	84	31¾	21⅛	31⅛	-⅛
21½	14⅞	ScudderNAef	0.02	0.1		60	16	15¾	15⅞	-¼
10¼	8⅝	ScudderNEsF	0.16	1.6		254	10⅛	10	10⅛	+¼
16½	13⅜	SeaCnB	0.70	4.6	12	e100	15⅜	15⅜	15⅜	
16	14⅝	SeaC1.4625 x	1.46	8.8		3	16⅛	16	15	
38⅛	23⅝	S'gate			11	7724	u39	37	38⅝	+1¾
32⅝	25⅝	Seagrm	0.60	2.1	16	6592	29¼	20¾	29	-¼
20	15¼	Seagull En			13	705	18⅝	10¼	18⅛	-¼
45½	35⅞	Sealed Air			32	348	46	44¾	45	+⅛
57¼	44⅛	SearsR	1.60	2.8	11	5759	u57⅞	56⅝	57¼	+⅛
18½	16⅞	SecCapSBI	1.15	6.4	24	183	17⅞	17⅝	17⅞	-⅛
12⅝	10⅝	Seligm Sel	0.84	6.9		41	12¾	12⅛	12⅛	
35⅞	25⅝	Sensormat	0.22	0.7	23	3952	30⅝	29¾	30⅝	+⅜
31¾	21⅞	SequaA	0.80	2.0	19	16	30⅛	29¾	29¾	-⅛
35⅛	25	SequaB	0.50	1.5	18	32	34	33⅝	54	

AMEX COMPOSITE PRICES

4 pm close June 8

NASDAQ NATIONAL MARKET

4 pm close June 8

AMERICA

Dow flat on interest rate uncertainty

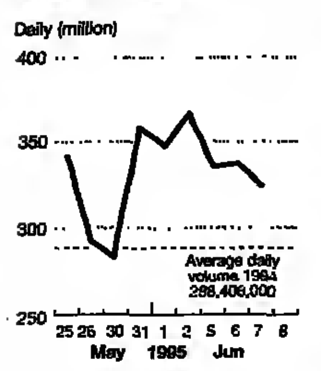
Wall Street

US shares were mixed in early afternoon trading amid renewed uncertainty about the future of interest rate policy, *writes Lisa Bransten in New York.*

At 1pm the Dow Jones Industrial Average was 2.77 higher at 4,464.80, while the more broadly traded Standard & Poor's 500 had shed 0.37 at 532.76. The American Stock Exchange composite rose 0.86 at 488.45 and the Nasdaq composite gained 3.39 at 884.97, surpassing Monday's record close. Volume on the NYSE came to 170m shares.

Prices on the bond market were lower across the maturity

NYSE volume



spectrum as traders digested comments made on Wednesday by Mr Alan Greenspan, chairman of the Federal Reserve, who said he did not expect a recession. The market interpreted the comments as a sign that the Fed would not increase interest rates at next month's meeting of its open market committee.

Investors in both markets have now turned their attentions to the producer price index data for May, which is due to be released today and which should give some signals about inflation and the direction of monetary policy.

In the Dow, gains by Caterpillar, up $1⅜ at $62⅝, and Boeing, up $1 at $62⅛, helped offset a decrease in Philip Morris, which slid $1⅛ at $72.

Philip Morris was lower, in part because of a press report alleging that the company had conducted studies showing that nicotine had physical effects on smokers which might affect the company's fight to keep tobacco from being regulated as a drug.

Aetna Life & Casualty climbed $1⅜ at $61⅞ on reports that the insurer was looking to sell part of its property and casualty business.

Lotus Development, which trades on the Nasdaq, continued to climb in the wake of IBM's announcement on Monday that it was launching a hostile bid to buy the company for $3.3bn or $60 per share. Lotus shares rose another $⅞ to $63¾, well past the offer price as investors and arbitragers bet that IBM might have to increase its offer to prevent it being beaten by a higher bid. IBM shares fell $⅝ at $88⅝.

Other Nasdaq-traded technology companies were mixed. Iomega, which manufactures computer disc drives, jumped $2⅝ at $24⅞, and Adobe Systems was $2⅝ higher at $56⅝, while Microsoft slid $1⅛ at $83⅞ and Apple Computer lost $⅝ at $42⅝.

Canada

Toronto was weak at midday, dragged down by falling gold and banking stocks and with activity dominated by trading in Diamond Fields and Inco following the announcement of a deal on the Voisey Bay deposit. The TSE-300 composite index was 12.13 lower at 4,464.20.

Diamond Fields fell C$11 to C$65⅞ and Inco was C$2⅜ higher at C$35⅞ after news that Inco would buy a 25 per cent interest in Diamond Fields' Voisey Bay base metal deposit for about C$525m. Inco was also to buy about 7 per cent of Diamond Fields' shares from existing shareholders.

Buenos Aires higher

Buenos Aires was stronger in early trading as the market steadied following a two session fall of 10 per cent on worries that the country had gone into recession. The Merval index was up 4.50 or 1.1 per cent at 407.37 by midsession in turnover of 65.9m pesos.

The government tried to calm nerves by saying that only certain sectors of industry were in recession, and forecast that economic growth would be in the order of 3 per cent this year.

SAO PAULO was up 1.8 per cent in light midday trading in a technical reaction to steep losses over the last two days.

The Bovespa index was up 691 to 38,773 at 1pm in turnover of R$144.3m ($158.7m).

The market had suffered in the past two days on worries that the government would devalue the real after news that Brazil's trade deficit in May would reach $800m, against a $467m gap in April. Petrobras preferred rose 3.3 per cent to R$93.50 by noon after the Lower House gave initial approval on Wednesday to a government proposal to break up the state oil monopoly.

MEXICO CITY was marginally firmer as investors digested recent economic news and searched for bargain prices. The IPC index was up 0.18 at 1,989.98 by 1pm.

South Africa declines

Shares were easier as buyers remained sidelined by political uncertainty and a lack of new corporate news. Early gains in the gold price and an easier rand had done little to support prices, brokers remarked, while a late fall in bullion dragged related stocks lower.

The overall index softened 38.3 to 5,497.5, the industrial index lost 53.5 to 6,906.9 and the gold index was 23.5 lower at 1,364.1.

Among the actives, Anglos fell R3 to R199, De Beers was 25 cents softer at R94.75 and Gencor managed a 10 cent rise to R12.20.

Sasol was 35 cents lower at R35.75 and Engen lost R1.10 to R24.15. Elsewhere, Remgro was 75 cents lower at R25.75 on results.

EUROPE

LVMH shares hurt by exposure to dollar, yen

Rate cuts in Belgium and the Netherlands had little effect on bourses, which seemed more interested in company news, *writes Our Markets Staff.*

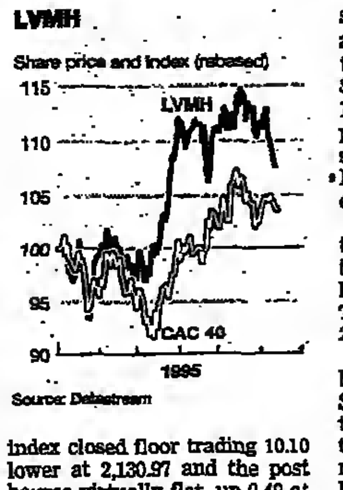
PARIS fell 1 per cent with LVMH, the luxury goods group, attracting sellers. The CAC-40 index lost 23.50 at 1,851.19.

LVMH, off FFr21 or 2.3 per cent at FFr907, warned that exposure to the dollar and yen was having a detrimental effect on profits: sales for the first four months of 1995, up by 8.5 per cent, would have been more than 15 per cent better without the negative influence of currency turbulence. LVMH derives 50 per cent of its turnover from sales in the US and Japan. Brokers also remained worried about new acquisitions, which might move the company away from its core businesses of champagne, cognac, beauty products and perfume, and further towards media interests.

Christian Dior, which has a 40 per cent stake in LVMH, slipped FFr13.50 to FFr448.50.

FRANKFURT built a desultory day's trading on a lower dollar during the session, and a slight recovery in the US currency after hours. Turnover was just DM5.5bn as the Dax

LVMH



Source: Datastream

index closed floor trading 10.10 lower at 2,130.97 and the post bourse virtually flat, up 0.49 at 2,137.21.

At the end of the day there were still pockets of weakness in cyclicals, Thyssen extending Wednesday's slide on a number of earnings downgrades with a further fall of DM2.70 to DM283.30, and BMW taking the day's punishment in carmakers at DM767, down DM5.20.

Eventual winners included Hoechst, up DM4.60 to DM314.90 and continuing to re-establish the premium to BASF which it lost in mid-April; Lufthansa, the standard dollar stock, up DM2 to DM197.50; and, among smaller companies, the optician chain, Fielmann, 80 pfg better at DM63.90 and 13.7 per cent up, against a 3.4 per cent rise in the market, since it was recommended by Mr Alexander Magona of Robert Fleming a month ago.

ZURICH was lower in busy trading as weak bond markets triggered profit-taking, particularly in the financial sector. The SMI Index lost 12.8 to 2,806.8.

Roche certificates turned back from an opening high of SFr7,180 as the group declined to comment on speculation that it might be interested in making a bid for Zeneca of the UK. The rumours drove the UK company's shares sharply higher in London. By the close, Roche was SFr70 lower at SFr7,060 as pharmaceutical analysts in Zurich expressed doubts that Roche would be interested in Zeneca's agrochemical and speciality chemicals businesses.

Sandoz, which also refused comment on rumours that it was considering a bid for Zeneca, eased SFr6 to SFr777.

Holvis, the non woven textiles and paper distribution group, gave up SFr10 to SFr504 after the bourse commission's clearance of the SFr500 a share bid from Britain's BBA Group, and the pledge by the rival bidder, International Paper, to explore all legal options in its continued campaign.

Insurers fell sharply after recent strong gains. Zurich Insurance fell SFr28 to SFr1,436 and Swiss Re SFr19 to SFr903.

AMSTERDAM was disappointed by KLM's 1994/95 figures, which came in at the lower end of expectations, and the shares were marked down Fl 2.10 or 4.1 per cent at Fl 49.20. The market had estimated that the figures would be in the range between Fl 445m and Fl 537m; in the event, they came out at Fl 470m. The AEX index rose 0.93 to 435.62.

KPN was also actively traded, losing 60 cents to Fl 54.60 while, on the upside, Aegon made Fl 1.80 to Fl 54.00 following a number of recent buy recommendations.

Hoogovens dipped Fl 2.50 to Fl 58.30, mainly on US selling.

MILAN was enlivened by activity in Gemina, the investment group, which tumbled on fears of its exposure following the collapse of the engineering group, Filippo Fochi. Gemina finished L38 down at L885, having recovered from an early low of L862, and after a brief suspension when a wrongly inserted order sent the shares soaring by nearly 10 per cent early in the afternoon. Volume was a hefty 51.6m shares.

The Comit index eased 2.20 to 621.91 in largely technical trade ahead of Monday's monthly options settlement and the end of the monthly *account next Wednesday.*

BRUSSELS, where the Bel-20 index closed 13.52 lower at 1,430.41, was rescued from a worse fate by a domestic rate cut half an hour from the close, and by a little basket trading. Steels were weak, traders blaming the privatisation plans for the French steel group, Usinor, and selling by institutions making space in their portfolios. Cockerill fell BFr3 to BFr182, and the Luxembourg-based Arbed by BFr130 to BFr3,980.

STOCKHOLM featured a 3.2 per cent jump in Pharmacia as the group dismissed speculation that it could be facing a bid, perhaps from Zeneca. Pharmacia closed SKr6 higher at SKr192.50, after nudging a high of SKr195, as the Affärsvärlden General index, reflecting an otherwise quiet day, eased 0.5 to 1,602.1.

HELSINKI was a mixed bag. The index-heavy Nokia, with the A shares up FM4 at a new record high of FM213, left the Hex index up 11.1 at 1,897.3. However, Amer, the sports goods, car dealing, tobacco, publishing and printing combine, reported a sizeable drop in four month earnings and fell FM6.50, or 7.1 per cent to FM85.

FT-SE Actuaries Share Indices

Jun 8						THE EUROPEAN SERIES		
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1375.95	1374.26	1373.22	1371.55	1371.50	1369.69	1370.05	1371.16
FT-SE Eurotrack 200	1465.82	1464.76	1465.22	1466.86	1465.30	1462.09	1463.53	1463.89

	Jun 7	Jun 6	Jun 5	Jun 2	Jun 1
FT-SE Eurotrack 100	1374.76	1377.53	1376.78	1372.38	1374.30
FT-SE Eurotrack 200	1462.94	1465.48	1461.39	1456.70	1465.21

Base 1000 (26/10/90); High/day: 100 - 1375.95, 200 - 1469.73 Low/day: 100 - 1368.50 200 - 1461.42 † Partial

Written and edited by William Cochrane, Michael Morgan and John Pitt

ASIA PACIFIC

Nikkei off 1.5% ahead of MoF package for banks

Tokyo

Anticipation of a government bail-out package for Japanese banks was outweighed by futures-led selling and the Nikkei index fell 1.5 per cent, *writes Emiko Terazono in Tokyo.*

The 225 average closed 237.32 lower at 15,442.30 after trading between 15,356.44 and 15,630.03. It was lifted briefly in the afternoon on news that the ministry of finance's bad loan package for financial institutions would be released after hours, and depressed, finally, by late technical selling.

The MoF had loans policy brought no new tax moves to aid the banks, and an absence of other support measures for which professionals had been hoping. There had been a suspicion of this during the day, while expectations that the quarterly survey of business sentiment would indicate a lack of corporate confidence also led to cautious trading.

Volume totalled 248m shares, against 231m. The Topix index of all first section stocks lost 18.03 to 1,245.31, while the Nikkei 300 fell 4.09 to 231.50. Losers overwhelmed gainers by 780 to 197 with 149 unchanged.

Although financial officials indicated their confidence in the package, it came as a disappointment to market participants who were expecting specific measures on the early disposal of banks' bad loans. "With this announcement the authorities' intentions still appear to have fallen short of reality," said Mr James Fiorillo at Baring Securities.

Banks fell sharply. Industrial Bank of Japan fell Y70 to Y2,460 and Dai-Ichi Kangyo Bank declined Y40 to Y1,610. Brokers were also lower with Nomura Securities down Y30 to Y1,530 and Nikko Securities losing Y22 to Y752.

In London, the ISE/Nikkei 50 index rose 5.46 to 1,033.68. Traders reported aggressive buying of Japanese trust banks, on hopes that they would be able to use their reserves to write off bad debt.

Steelmakers were down on foreign selling. Traders said uncertainty over a price increase by South Korean steel makers prompted profit taking. Nippon Steel fell Y3 to Y298 and Sumitomo Matal Industries dropped Y7 to Y243.

Speculative issues ware traded actively by individuals. Fudo Construction, the most active issue of the day, rose Y29 to Y725 while Maruyama added Y4 to Y601. Other speculative favourites were weak with Tamura Electric Works down Y18 to Y992.

Selling by overseas investors depressed Mitsubishi Chemical, which declined Y13 to Y384 while fears over earnings hit Sharp, which fell Y40 to Y1,100.

In Osaka, the OSE average fell 203.73 to 16,587.99 in volume of 11m shares. Omron, the machinery maker, fell Y20 to Y1,590 and Nintendo, the video game maker, lost Y180 to Y4,960.

Roundup

Most of the region came under selling pressure although Malaysian stocks saw a slight rebound. Karachi was closed for a holiday.

KUALA LUMPUR saw renewed buying in the afternoon, after news of robust first quarter economic news, but brokers said the market was still in a consolidation phase, and any upside would be limited.

The composite index ended 3.39 higher at 1,061.19, up from an intraday low of 1,049.04.

Repco surged M$2.60 or 13.7 per cent to M$21.60 on persistent rumours that a deal to acquire a gaming company had been concluded.

The newly listed Gemtech Resources led activity, closing at M$3.80 against its initial public offer price of M$1.80.

HONG KONG fell briefly below 9,200 during a day of see-sawing trade; by the close the Hang Seng index was down 89.80 at 9,292.78 as turnover edged up to HK$4.4bn from Wednesday's HK$4.3bn.

Hutchison topped the most active list, tumbling HK$1.20 to HK$36.60 as Li Ka-shing, chairman of Cheung Kong and Hutchison, cut his stake to 44.3 per cent from 45.2 per cent.

Cheung Kong lost 50 cents to HK$37.30 and HSBC slid HK$1 to HK$102.

SEOUL ran into broadly based selling after its recent gains, with blue chips tha biggest losers. The composite index lost 8.68 to 890.68, off a day's high of 903.42, the index again finding strong resistance above the 900 level.

Institutional investors and the stock market stabilisation fund continued to support the market, but to a limited extent. Samsung Electronics lost Won1,500 to Won119,500 and Posco fell Won600 won to Won64,400.

Ottogi Foods went limit up, rising 6 per cent to Won23,000, on the news that it had bought a 29.5 per cent stake in Seorim, a mineral water supplier.

SYDNEY fell for the second consecutive session, the All Ordinaries index dipping under the 2,000 level with a fall of 17.4 to 1,998.2. Brokers said that a weaker bond market affected shares. Turnover was A$490.1m.

Coca Cola Amatil lost 33 cents at A$7.90 on reports thet it planned to raise A$750m in capital. After the market had closed the company denied the reports. Jupitors fell 15 cents to A$2.90 on rumours that its casino was not likely to attain expected revenue levels.

Westfield Holdings gained 12 cents to A$10.12 after announcing a US airport contract.

Resource stocks fell further on continuing negative sentiment over commodity prices. MIM fell 2 cents to A$1.78 and CRA 20 cents to A$18.28.

SINGAPORE was easier with banks feeling the bulk of the selling pressure: the Straits Times Industrials index fell 3.63 to 2,175.48.

TAIPEI weakened in low turnover. The weighted index slipped 40.56 at 5,641.02. Turnover shrank to T$24.5bn from T$38bn.

Leading electronics continued to attract some buying from foreign funds, but overall sentiment was bearish.

Microtek International gained T$1.2 to T$40.8, and United Micro Electronics rose T$2.5 to T$134.

Plastics and textiles led the losses, falling by 1 per cent and 1.4 per cent respectively.

MANILA was little changed but a newly listed stock, Security Bank attracted attention on its debut, closing up 26.3 per cent at 55 pesos from its offer price of 43.55 pesos. The shares reached a high of 56 pesos. The composite index rose 0.62 to 2,839.47.

BOMBAY was lower on selling by speculators, after news that the re-introduction of forward trade could be delayed. The BSE-30 index was 29.21 lower at 3,359.27.

BANGKOK fell on selling of finance issues as profit taking sapped buying confidence. The SET index lost 5.60 to 1,396.79 in turnover of Bt7.9bn.

The newly listed KR Precision, a manufacturer of hard disc drives, rose to Bt135, a premium of Bt25 over its IPO price of Bt110, in volume of 1.6m shares.

JAKARTA dropped 1.3 per cent on profit taking, the composite index closing 6.42 lower at 489.09.

COLOMBO featured a near 10 per cent rise in the conglomerate, John Keells, Rs16 higher at Rs186, as the all share index closed 10.96 or 1.5 per cent higher at 742.89.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by The Financial Times Ltd., Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by The Financial Times and Goldman Sachs in conjunction with the Institute of Actuaries and the Faculty of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	WEDNESDAY JUNE 7 1995 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	TUESDAY JUNE 6 1995 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (83)	166.53	-0.3	155.06	88.78	121.85	153.88	-0.3	4.06	167.12	156.05	90.04	123.27	154.32	180.82	157.95	173.54
Austria (26)	195.50	0.8	182.06	104.23	143.06	142.87	-0.1	1.24	194.04	181.18	104.55	143.13	142.94	198.89	167.48	168.58
Belgium (35)	194.27	0.3	180.91	103.57	142.15	138.48	-0.5	3.78	193.82	180.79	104.32	142.82	139.09	201.12	181.66	164.65
Brazil (28)	136.89	-2.9	127.47	72.98	100.16	229.42	-2.4	1.45	140.96	131.62	75.95	103.88	234.95	-	-	-
Canada (102)	140.97	-0.2	131.27	75.15	103.14	140.82	-0.2	2.51	141.26	131.90	76.11	104.19	141.13	141.62	120.54	130.57
Denmark (33)	281.29	0.2	261.94	149.96	205.82	210.18	-0.4	1.51	280.69	262.09	151.23	207.04	211.05	287.44	236.61	248.16
Finland (24)	215.83	1.2	200.98	115.06	157.92	195.17	0.4	1.59	213.35	199.21	114.95	157.37	194.39	215.83	133.68	140.90
France (101)	187.65	0.9	174.74	100.04	137.30	145.71	0.4	3.05	186.01	173.68	100.22	137.20	145.09	191.17	157.79	165.54
Germany (59)	157.84	0.5	146.98	84.15	115.49	115.49	-0.3	2.05	156.98	146.58	84.58	115.79	115.79	157.84	132.08	135.86
Hong Kong (55)	365.84	-1.5	340.68	195.04	267.69	363.26	-1.5	3.75	371.28	346.68	200.04	273.87	368.71	416.42	277.40	379.66
Ireland (16)	230.34	0.3	214.49	122.80	168.54	199.80	0.0	3.58	229.58	214.37	123.70	169.35	199.82	230.53	161.99	182.14
Italy (58)	74.67	-1.3	69.53	39.81	54.63	91.62	-0.8	1.86	75.62	70.61	40.75	55.78	92.37	89.22	65.45	89.16
Japan (483)	151.58	1.1	141.15	80.81	110.91	80.81	0.0	0.93	149.96	140.03	80.80	110.82	80.80	170.10	136.95	160.31
Malaysia (97)	548.54	-2.0	510.81	292.44	401.37	515.27	-1.8	1.58	559.88	522.80	301.55	412.84	525.48	594.76	398.15	453.58
Mexico (18)	960.38	-0.5	894.30	511.98	702.68	6420.81	-0.8	2.09	965.32	901.35	520.09	712.03	6459.22	2414.12	647.81	2135.26
Netherland (19)	248.72	0.5	232.54	133.13	182.72	179.39	-0.2	3.52	248.25	231.80	133.75	183.12	179.78	252.34	194.56	197.80
New Zealand (14)	82.23	-0.4	76.58	43.84	60.17	84.96	-0.5	4.80	82.58	77.10	44.49	60.91	65.32	84.31	64.00	69.61
Norway (33)	222.57	0.6	207.26	118.66	162.85	189.34	-0.1	2.23	221.29	206.62	119.22	163.22	189.46	230.07	177.53	186.79
Singapore (44)	404.64	-0.7	376.81	215.73	296.08	259.51	-0.8	1.88	407.36	380.37	219.48	300.48	261.69	414.26	313.94	341.90
South Africa (61)	347.64	-0.3	323.72	185.33	254.36	279.37	-0.3	2.49	348.53	325.43	187.78	257.08	280.20	363.22	261.43	268.31
Spain (38)	147.43	-0.5	137.29	78.60	107.87	136.29	-0.4	4.15	148.22	138.40	79.86	109.33	136.89	151.79	124.10	142.23
Sweden (48)	264.46	-0.1	246.27	140.99	193.51	282.72	-0.2	2.11	264.67	247.13	142.60	195.23	283.25	265.84	196.70	214.54
Switzerland (46)	199.48	1.4	185.76	106.35	145.96	143.20	0.3	1.79	196.67	183.63	105.96	145.06	142.77	199.48	155.05	180.10
Thailand (46)	173.06	-0.6	161.16	92.26	126.63	165.53	-0.6	2.64	174.15	162.61	93.83	128.46	166.85	-	-	-
United Kingdom (203)	217.57	0.0	202.60	115.99	159.20	202.60	-0.3	4.13	217.60	203.18	117.24	160.51	203.18	218.27	181.11	185.29
USA (506)	218.03	-0.5	203.03	116.24	159.53	218.03	-0.5	2.64	219.11	204.59	118.05	161.62	219.11	219.15	180.55	187.02
Americas (654)	199.76	-0.5	166.02	106.50	146.16	167.58	-0.5	2.62	200.78	187.47	108.17	148.09	168.42	-	-	-
Europe (738)	189.98	0.3	176.92	101.28	139.02	159.80	-0.1	3.12	189.39	176.84	102.04	139.69	160.03	190.51	160.59	164.08
Nordic (138)	254.20	0.2	236.72	135.52	186.00	225.37	-0.1	1.83	253.57	236.77	136.62	187.04	225.65	254.77	197.70	203.59
Pacific Basin (822)	161.49	0.7	150.38	86.10	118.18	92.15	-0.2	1.30	160.37	149.74	86.40	118.29	92.32	176.66	145.93	168.31
Euro-Pacific (1561)	173.27	0.5	161.35	92.37	126.78	117.37	-0.2	2.13	172.38	160.94	92.86	127.13	117.57	178.33	154.73	168.39
North America (608)	213.26	-0.5	199.59	113.89	156.04	212.80	-0.5	2.64	214.29	200.09	115.45	158.06	213.83	214.30	176.93	186.39
Europe Ex. UK (535)	170.87	0.5	159.11	91.09	125.02	135.73	-0.1	2.56	170.00	158.74	91.59	125.40	135.82	171.29	144.12	163.52
Pacific Ex. Japan (339)	256.94	-1.1	239.27	136.98	188.00	225.78	-1.1	3.15	259.83	242.51	139.99	191.68	228.35	273.13	211.19	148.81
World Ex. US (1770)	173.85	0.5	161.89	92.69	127.21	120.94	-0.2	2.15	173.05	161.58	93.24	127.64	121.17	178.73	155.42	247.56
World Ex. UK (2073)	184.22	0.1	171.55	98.21	134.79	144.01	-0.3	2.14	183.99	171.80	99.13	135.72	144.45	187.07	163.46	167.65
World Ex. Japan (1793)	207.69	-0.2	193.40	110.72	151.96	193.38	-0.4	2.84	208.19	194.39	112.17	153.56	194.18	208.74	176.74	171.86
The World Index (2276)	187.13	0.1	174.26	99.77	136.92	149.04	-0.3	2.33	186.93	174.54	100.71	137.88	149.49	189.27	165.92	173.07

Latest prices were unavailable for this edition.